

198114

JPRS-CEA-86-064

30 MAY 1986

# China Report

## ECONOMIC AFFAIRS

SELECTED ARTICLES ON REFORM  
OF ECONOMIC SYSTEM, ENTERPRISE MANAGEMENT

DISTRIBUTION STATEMENT A  
Approved for Public Release  
Distribution Unlimited

19990923 095

DTIC QUALITY INSPECTED 4

**FBIS**

FOREIGN BROADCAST INFORMATION SERVICE

Reproduced From  
Best Available Copy

REPRODUCED BY  
NATIONAL TECHNICAL  
INFORMATION SERVICE  
U.S. DEPARTMENT OF COMMERCE  
SPRINGFIELD, VA. 22161

2  
76  
A05

#### NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

#### PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

30 MAY 1986

## CHINA REPORT

### ECONOMIC AFFAIRS

#### SELECTED ARTICLES ON REFORM OF ECONOMIC SYSTEM, ENTERPRISE MANAGEMENT

Shanghai JINGJI TIZHI GAIGE HE QIYE GUANLI RUOGAN WENTI DE TANTAO  
[AN INQUIRY INTO SEVERAL ISSUES CONCERNING REFORM OF THE ECONOMIC  
SYSTEM AND ENTERPRISE MANAGEMENT] in Chinese March 1985

[Selected articles from book by Jiang Yiwei [5592 0001 5517].  
Published by Shanghai Renmin Chubanshe]

#### CONTENTS

Introduction: A Five-Year Retrospective [pp 1-10 of original]. . . . .	1
Planning and Control [pp 59-66] . . . . .	8
Encouraging and Protecting Competition [pp 115-121] . . . . .	14
Several Issues Concerning Distribution According to Labor [pp 199-205].	18
Distribution According to Labor and the Wage System [pp 222-258]. . . .	23
The Leadership System in Socialist Enterprises [pp 295-308] . . . . .	47
Enterprise Consolidation and Strategic Objectives [pp 311-336] . . . .	56

/9365

## 1. Introduction: A Five-Year Retrospective [pp 1-10]

[Text] This collection includes the principal articles I wrote during the 5 years between 1979 and 1983, 31 articles in all. Most of these articles were published in newspapers and periodicals while the rest are unpublished lectures, reports, etc. These articles were published at different times so the wording and expressions may not be exactly the same in earlier and later articles. When publishing a collection of essays, I believe that one should basically preserve the original articles; thus in most of the articles only the necessary corrections have been made along with certain revisions in specific articles.

As far as I am concerned, the publication of such a collection has significance in that I may make use of this opportunity to look back on the course I have taken over the past 5 years in ideology and in work. However, does it have any significance for the reader? I believe it may be of some use. The past 5 years has been a period of major historical change, and current reforms have become the key points in national economic work. My essays deal primarily with the reform of the economic system and enterprise management. Although this is only "the opinion of one school of thought," it speaks to a lesser or greater extent to several major issues in China's reform. It may provide readers who are concerned with these issues some material to ponder and explore. By offering some of my ideas, others may be inspired to probe further.

In order to compile this collection it was necessary to review the articles I had written and the talks I had given over the past several years. Naturally, this was very exciting as it brought to mind the various experiences related to each article. Most of all, I rejoice over being part of this great new historical period of our party and state during my later years.

What is man's greatest happiness? I believe the greatest happiness is being able to be part of the turbulent and surging current of history. Regardless of the extent of man's abilities, if he can become a drop of water in the advancing tide, that is happiness. No man's words and actions can be correct all the time, yet if he lives in a time that encourages him to dare to think, speak, and act, that is happiness.

The 3d Plenum of the 11th CPC Central Committee ushered in a new era in our party and nation of liberating ideology, seeking truth from facts, stability, unity, and vitality. Without such unprecedented historical conditions I would not have been able to write these articles, much less publish so many of them. I have written essays in the past, but they were regarded as no more than the opinions of an intellectual. At that time it seemed that in real life there was no need for theoretical work, that theoretical workers were usually unprepared to truly participate in reality. Essays were like a goose feather thrown into the mighty current of life, as not even half a drop of water splashed back up. If one was not successful he incurred fabricated charges and sudden misfortune. I, like numerous intellectuals,



personally endured such adversity. The situation today is completely different. The party and the state stress developing the role of intellectuals and urge theoretical workers to confront and serve reality. Even if one's views are insignificant and limited, they may play some role in reality; they are all welcomed and encouraged by the party and the people. At present, theoretical workers no longer lack an arena for displaying their abilities; on the contrary, theoretical workers are needed to study and investigate the large number of real problems we are confronted with. Indeed, there is much theoretical work to be done.

Since the 3d Plenum of the 11th CPC Central Committee a gratifying phenomenon has occurred under the guidance of the ideological line of liberating ideology and seeking truth from facts: the true implementation of the party's policy of letting a hundred flowers bloom and a hundred schools of thought contend. This is a significant sign that the nation and people are heading toward a period of full bloom.

I am a "late blooming" theoretical worker. My theoretical foundation was shaky and practical experience lacking. Nevertheless, due to the objective requirements of my work, I published some immature ideas over the past 5 years concerning systems reform and enterprise management. What makes me feel excited is that these ideas have evoked repercussions of all kinds. Some proposals have won the support of the Central Committee or local leading comrades, and I have had the opportunity to acquire some practical experience. Some theses provoked great argument. As far as an author is concerned, approval or opposition are both inspiring and constructive.

To enable the reader to better analyze and approach the ideas in my essays, I must explain some controversial matters. To be sure, these explanations are based upon my own understanding, so I dare not claim that they are objective comments.

Of the 31 articles included in this collection, nearly half are controversial. Of these, the article "Enterprises as Basic Units" concerning the two levels in distribution according to work, the Chinese method of enterprise management, and the enterprise leadership system evoked the greatest reactions. Below I will give a simple explanation of these problems and of controversies over other articles.

The first draft of the article "Enterprises as Basic Units" was written during the first half of 1979. As internal material, it was sent for review to leading comrades of the Central Committee and to relevant departments. At that time systemic reform was being discussed and there was much argument over how to proceed with urban reforms. I felt that it was necessary to begin by first defining the nature and position of socialist enterprises and clarifying the relationship between the state and enterprises, and then use this as the criterion for mapping out the entire macroscopic management system. In order to explain this concept I tried to provide theoretical proofs. I proposed the idea of enterprises as economic cells and the notion that enterprises are independent commodity producers. I divided the economic

system into three models, the theory of the state as the basic unit, the theory of the region as the basic unit, and the theory of the enterprise as the basic unit. I advocated adopting the latter for carrying out reforms. This article solicited internal opinions and won the acceptance of several leading comrades. Later, the article "My Views Concerning the Theory of Enterprises as the Basic Unit" was published in the monthly JINGJI GUANLI [ECONOMIC MANAGEMENT]. After revision and additions, "Enterprises as Basic Units" was published in the first issue of ZHONGGUO SHEHUI KEXUE [SOCIAL SCIENCES IN CHINA], stimulating a variety of reactions. Some approved and others did not, and this has continued to the present.

Whereas the majority of enterprise workers approved of this article, certain comrades in economic agencies and in theoretical circles took exception. Some felt that "Enterprises as Basic Units" advocated in a biased manner reviving the microeconomy while overlooking macroscopic control. Some argued that since one cannot call a socialist economy a commodity economy, neither can enterprises act as commodity producers. Others believed that in state-owned enterprises the means of production are owned by all the people and that therefore we cannot implement the practice of assuming responsibility for profits and losses, while still others interpreted my words too literally. Because I used the two characters "benwei" [2609 0143] for departmentalism, they felt that "Enterprises as Basic Units" encouraged departmentalism in enterprises. Except for making oral replies at some meetings, I have written no articles rebutting these objections. I believe that only comrades who have earnestly read this article can see that "Enterprises as Basic Units" proves simply that in the reform of an industrial and commercial system it is necessary to design a macroscopic management system using the form of the enterprise as the criterion, and under no circumstances should we neglect macroscopic control. The use of "benwei" is like adopting the gold or silver standard in currency; it is not the same as the meaning of the characters in the word for departmentalism. Even if they were the same, favoring a basic unit is not equivalent to promoting departmentalism, just as our emphasis on experience does not mean that we advocate empiricism. As for whether a socialist economy is a commodity economy, this has been a matter of great contention in theoretical circles for many years. Nevertheless, at the very least everyone acknowledges that commodity production and commodity exchange still exist and that they must be developed. Since commodity production does exist, how can there not be commodity producers? And whether state-owned enterprises should assume responsibility for profits and losses is a problem that can be explored further. At any rate, the matter of responsibility for profits and losses has gradually become clearer.

In the past few years the application of reforms has shown that there is still a multitude of reforms to be made in the economic system. We must first solve the problems of the form of economic cells. Complete successes have been obtained in rural reforms and an effort has been made to first correctly resolve the problem of the form of economic cells. Rural areas have implemented the output-related system of contracted responsibility. Essentially, they proceeded from China's rural production forces to create a new rural economy with the rural household as the basic unit. One may call

this a case of "rural households as the basic unit." Over the past few years many experiments have been tried in urban reforms from expanding enterprise autonomy to broadly establishing the economic responsibility system in industry to further expanding enterprise autonomy and to simplifying administration, expanding rights and transferring them. In the final analysis, the problem still remains of determining the nature and position of enterprises.

In 1980 I published "Several Questions Concerning Distribution According to Work" in GONGREN RIBAO [WORKERS DAILY]; that same year I also published in GONGREN RIBAO "A Tentative Discussion of the Principle of Comprehensive Material Benefits." In these two articles I proposed the concept of "the two levels in distribution according to work." I believe that in implementing distribution according to work, it is not possible to simply apply Marx's classical exposition in practice. That is, society cannot directly institute distribution to individual producers according to labor. Society must first carry out distribution for the labor contributions of enterprise collectives, and only then implement distribution by enterprises to staff and workers on the basis of work. In the article "A Tentative Discussion of the Principle of Comprehensive Material Benefits," I made some recommendations for reforming the wage system. XINHUA reprinted an abstract of this article, which provoked a great reaction throughout the country. I received over 1,000 letters from readers throughout China, most of which expressed support for my ideas concerning reform of the wage system. The concept of the two levels in distribution according to work evoked some controversy in theoretical circles. The matter of the two levels in distribution according to work grew to include inquiry into distribution of national revenue and redistribution and an examination of the relationship between wages and costs, etc. Then the western section of the city of Chengdu tested the "method of subtracting capital and sharing," which is considered an application of the concept of two levels in distribution according to work. It too evoked great controversy. This controversy has continued to the present.

In the above mentioned two articles, due to limitations of space, I have not carried out further theoretical discussions. Regarding Marx's exposition on distribution according to work in his "Critique of the Gotha Program" I stressed that in socialized, large-scale production enterprises it is not possible for individual labor to make a direct contribution to society; it can only provide society with products [chanpin 3934 0756] manufactured by enterprise collectives. In reality, the fundamental problem still lies in the fact that Marx at that time believed that by establishing a socialist society it would be possible to eliminate commodities [shangpin 0794 0756]. An individual's labor would become a direct part of social labor. However, in current reality we are still practicing commodity production. It is not possible for an individual's labor to become a direct part of social labor. We can only use the average socially necessary labor that goes into manufacturing commodities to measure labor contribution to society. Consequently, distribution according to work must be divided into two levels or two administrative levels in order to be carried out. In this collection I have made the above mentioned revisions and additions to "Several Questions Concerning Distribution According to Work."

The two problems of eating out of "one big pot" are fundamental problems that must be resolved through systemic reform. The two levels in distribution according to work were proposed precisely to deal with the two problems of eating out of "one big pot." If enterprises practice distribution according to work, that will solve the problems among enterprises of eating out of "one big pot," and if enterprises carry out distribution to workers on the basis of work, that will solve the problem among workers of eating out of "one big pot." There are those who believe that the problem among enterprises is exchange of equal value, not distribution. Actually, this is not so. Capitalist enterprises use exchange of equal value, including equal value exchange of labor power, to realize capitalist distribution. After socialist enterprises undergo exchange of equal value, their net revenue must still be distributed between the state and enterprises. The size of the portion retained by enterprises which is transformed into consumption funds, for individual workers and collectives is a matter of distribution. The total amount of the consumption fund should embody the principle of greater profits for more work and fewer profits for less work. This is society's distribution to enterprise collectives on the basis of labor. The amount of enterprise-retained profits applied to production development funds is the redistribution of the portion accumulated by the state. Naturally, this does not fall under the category of distribution according to work. The concept of two levels in distribution according to work proceeds from this objective reality and I have therefore proposed the matter of reconsidering Marx's classical exposition.

The other implication of the concept of the two levels in distribution according to work involves the problem of the wage control system (including bonuses). Since the state has acknowledged the two levels in distribution according to work, the state need only be concerned with distribution to enterprise collectives, that is, controlling the total amount of enterprise consumption funds according to the principle of distribution according to work. The top must not be closed off and the bottom must not be kept low. Enterprises may determine how to implement distribution on the basis of labor within enterprises. This principle of two levels in distribution has already been accepted.

While carrying out reforms these past few years, there has been great controversy concerning the problem of the enterprise leadership system. I appreciate the spirit of relevant directives of central government leaders. I wrote the article "On the Leadership System of Socialist Enterprises" in which I proposed the concept of "separation of powers" in enterprises. I believe that enterprise party committees play a major supervisory role in enterprise administration. This discussion aroused much criticism; some comrades felt that this would weaken the party's leadership of enterprises. The matter of the enterprise leadership system has continued to be examined over the past few years. Some enterprises have carried out reform experiments. They have tried out the factory manager responsibility system under the leadership of the congress of delegates of staff and workers and have been successful. At present everyone's views are gradually becoming more similar and they have affirmed the direction of carrying out the factory

manager responsibility system. There have also been new developments in my own understanding of this problem. I am preparing to write an article on "A Reexamination of the Leadership System in Socialist Enterprises." The basic concepts, however, remain the same.

In 1979 a debate was launched on the correct way to study and promote the experiences of foreign countries in comprehensive quality control. The scope of influence was quite broad. Some comrades had the mistaken understanding that I oppose comprehensive quality control. Actually, I was one of a group which was first to participate in promoting comprehensive quality control. What I did oppose was indiscriminately copying the experiences of foreign countries. I advocated establishing a control science that embodied Chinese characteristics and, to this end, I published some lectures and articles. Afterward, responsible comrades in the State Economic Commission summed up studying the experiences of foreign countries in a 16-character policy: "Give priority to China, choose their numerous strong points, combine and refine them, and develop our own unique style." I wholeheartedly agree with this approach.

After studying foreign experiences in comprehensive quality control, in 1979 comrades in the Shanghai Diesel Engine Factory proposed the concept of "comprehensive economic accounting." When I was in Shanghai investigating and studying I was inspired by this idea and suggested using the "three comprehensives" (comprehensive planning management, comprehensive quality control, comprehensive economic accounting) as the conceptual basis for China's enterprise management system. I discussed this in the article "Basic Characteristics of Managing Socialist Enterprises." There were then further developments giving rise to the concept of "one system and four comprehensives," that is, a democratic and centralized leadership system, and comprehensive planning management, comprehensive technical and quality control, comprehensive economic accounting, and comprehensive control of personnel and labor. Whether or not a Chinese-style enterprise management system could use the model of "one system and four comprehensives" also provoked widespread discussion. Nevertheless, numerous enterprises throughout China approved of this and achieved real successes in practice. Of course, further investigation in carrying this out is necessary, but a large step has already been taken toward a Chinese-style enterprise management system. With this kind of beginning the future will surely yield excellent results. Moreover, with sustained and abundant development a socialist Chinese school of thought will form in the international tribune of opinion on management.

I have mentioned several problems that have created much controversy. Other articles also discuss numerous theoretical or practical controversies. For example, "Daring To Take the First Step in Reforming the System" once provoked national debate on how to evaluate Sichuan's experiences in reform. During reform the Capital Iron and Steel Co. tried out the contract for increased profit delivery which also evoked tremendous debate. The problem of industrial reorganization and enterprise consolidation has not yet been rationally resolved and to this day remains a controversy.



Under the guidance of the party Central Committee's eight-point policy of "readjusting, restructuring, consolidating, and improving" there have been great developments in the national economic situation. In his report to the Second Session of the Sixth NPC, Comrade Zhao Ziyang stressed the problem of urban reform. I believe that if we regard the past few years as the focal period of readjustment, we are now beginning to shift to a focal period of reform, wherein the critical area will be urban reform. Urban reform is much more complicated than rural reform. Numerous problems await further theoretical investigation and further practical exploration. I personally believe that urban reforms must first of all regard the enterprise as the basic unit and clarify the form of this economic cell as well as the relationship between the state and enterprises. It is necessary to use this as the criterion for designing a comprehensive macroeconomic management system.

The overall national economy is an organism with organic connections. Clarifying the form of the economic cell is only the beginning, the basis for reform. On this foundation, it is necessary to resolve the problem of cross connections among cells. This involves the problems of reorganizing industry and commerce and consolidating enterprises as well as developing the role of key cities, etc. It is also necessary to resolve the problems of the state's vertical management and organization of economic activities from the central government to localities. The current proposal to "simplify administration and expand rights" was suggested precisely to study and resolve the problems of vertical relations. In my article "The Essence of the Reform of the Economic Management System Is To Bring About a Socialist Economic Democracy" I presented several views on vertical management. The concrete methods mentioned may not all be appropriate but I believe that the rational approach is to establish a vertical management organization based on the principle of democratic centralism.

The policy direction of the party and the state is to revive the domestic economy and open up to foreign trade. The latter involves the problems of how to correctly handle foreign relations and how to handle economic relations between socialist and capitalist countries. The solution to all these problems must comply with the principle of liberating ideology and seeking truth from facts. We must conduct theoretical and practical investigations and proceed along the path of Chinese-style socialism.

As a theoretical worker, today I am confronted with a wonderful situation. I feel both excited and ashamed that my own abilities and knowledge are inadequate. By publishing a collection of my major articles of the past 5 years, in addition to hoping to inspire others, I hope to receive the criticism and correction of comrades in theoretical circles and in practical work so that I become better able to do what I can to promote reform.

Jiang Yiwei  
Beijing, 1 July 1984

## 2. Planning and Control [pp 59-66]

[Text] [Editor's note] The author delivered this essay at the theoretical symposium held 8 April 1982 by the CPC Central Committee Ministry of Propaganda. [End of editor's note]

### I. It Is Necessary To Maintain a Socialist Planned Economy

The issue of planning and the market is one of the major problems being enthusiastically discussed in theoretical circles today. It is also a major practical problem that must be resolved in order to implement the policy of readjusting, restructuring, consolidating, and improving.

According to Marxist theory, when carrying out socialist revolution and construction, there are many aspects to the historical tasks that must be fulfilled. One of the basic links is to bring about public ownership of the means of production. Only on the basis of public ownership is it possible to establish a unified socialist economy, to develop production and meet demands in a planned and proportionate manner and to overcome that crisis and great waste produced by the state of anarchy in social production under capitalism. Thus, a socialist economy must undertake economic planning; this is a fundamental, unchanging principle.

The question at present is how are we to understand a planned economy? How specifically should it be implemented so as to be advantageous to developing production?

Marxism has not really provided us with a specific model of a planned economy. A rational planned economy can only come about by constantly reviewing the experiences of real life. China has had both experiences and lessons in implementing a planned economy. When we affirm experiences we cannot only affirm past models. When we sum up lessons we have learned, we cannot therefore deny this fundamental principle in implementing a planned economy. The tasks confronting us are: first, we must uphold socialism and implement the principle of a planned economy; and second, we must sum up experiences and lessons, undertake a thoroughgoing inquiry into a planned economy, ranging from concepts to concrete methods, and seek a specific form that suits the development needs of China's production forces and that will facilitate continued development.

### II. We Must Clarify Several Conceptual Matters in the Area of Theory

During theoretical inquiry one frequently encounters unclear ideas. People's understanding of the meaning of what is said varies and, as a result, there may be much argument. Each person discusses his interpretation, or they misunderstand each other or they talk about different things entirely.

We must not rely solely upon a few words of leaders in the central government as the basis for studying theoretical problems. We must be skilled in understanding the spiritual essence and basic guiding thought of speeches given by

our leaders in the central government. We cannot ask our leaders to be so exact and precise in their use of words and thus cannot simply mechanically apply certain expressions from their speeches. On the contrary, theoretical workers are responsible for adopting a scientific attitude and for using precise concepts to logically elaborate on the principles and rules set forth by the central government. This is the proper attitude to take regarding the party and the manifestation of the proper party spirit among theoretical workers.

I feel that there are many unclear concepts regarding the issue of economic planning. Many years of practical life have given rise to concepts derived from experience. When we try to change reality, these habitual concepts often impede our inquiry into the true nature of things. For instance, our planning management follows the Soviet practice of adopting directive planning to control the activities of economic units. For this reason, the very word "plan" implies directive plans. Thus, directive planning seems to be equivalent to a "planned economy." The mention of the word "market" implies "free market," but because a free market is not included within the sphere of directive planning it is not a part of planning and not a part of a planned economy. It is worth discussing whether this kind of conceptual system formed from customary ways of looking at things is theoretically scientific and what contradictions exist in practice.

Based on my own limited understanding, China's public ownership economy already occupies a dominant position. The entire social economy should be a socialist unified economy. To implement planning management is also to implement a planned economy. The entire socialist economy should be included in the planned economy.

Some people may argue that since the economic activities of the whole country are so complex, how can they all come under planning? This touches upon the conceptual matter of what exactly is planning. If planning is equivalent to directive planning, naturally it is not possible to include all production and circulation as well as the particulars of variety and specifications in planning. The literal meaning of planning has to do with people's predictions, assumptions, and overall planning regarding objective activities. Its meaning may be general or specific.

To implement a planned economy is to practice planning management of economic activities throughout the country, including market regulation. However, the extent and methods of management vary. For instance, if we stipulate which commodities may be freely regulated by the market, this stipulation itself is an act of planning management. This involves the conceptual question of what is planning management.

There are primarily two functions of planning management: one is to formulate plans and the other is to exercise control of economic activities to achieve planning objectives. Planning management, planning, and control are three different concepts. Planning plus control results in planning management. Planning is the prediction and demand for objective economic activities.



Control is the realization of planning objectives and the regulatory measures used for objective activities.

Planning should be comprehensive but the term planning includes both general and specific planning. There may be differing methods of control, but they can be roughly divided into two methods: direct control and indirect control. Take control of production for example. The state may adopt direct methods of control--such as issuing directives--for major commodities that affect the national policy for the people's livelihood. Even though production will be directly controlled and this will be reflected in planning, it is of course still necessary to make more detailed provisions. The production of other goods cannot be ignored, so planning provisions for these goods may either be left rather general, or specific amounts of increase or decrease may be stipulated. It is not that the production of these goods is uncontrolled, but that indirect methods of control are used, that is, economic levers are primarily applied as a means of control so that production remains consistent with the objectives of planning predictions as much as is possible. To be sure, this does not mean that because indirect control utilizes economic levers, direct control totally disregards economic regulatory measures. Direct control must also make use of the law of value to motivate initiative for fulfilling directive tasks.

We must not regard the market as only a free market. In a planned economy under socialism the state directly controls the production of some primary goods and, at the same time, controls their circulation and distribution. One may say that the circulation of these goods constitutes a "market." It is reasonable for Comrade Chen Yun to call this part of the market the "state market." This means that this market is controlled by the state. With state control of these goods, it is possible to carry out direct allocation and distribution according to plans. Also, state material and commercial sectors may put goods on the market and organize free buying and selling.

A free market under a planned economic system differs from a free market under capitalism. Besides being restricted by state policies and laws, state controlled goods may also enter the free buying and selling market. If the free market can play a role in "market regulation" in supply and demand, the goods controlled by the state can also play a role in "regulating the market."

If the aforementioned concepts become established, then "planning" and the "market" will no longer be antagonistic categories. To implement a socialist planned economy, there should be integrated unified planning including both direct and indirect control. As for the realization of unified planning, we should give priority to direct control and regard indirect control as secondary. Under certain conditions this may be reversed. A socialist economy is a unified market, including both a market directly controlled by the state and a free market indirectly controlled by the state. If we are to say which is primary and which secondary, the market directly controlled by the state secondary. Similarly, under certain conditions this may be reversed. The two aspects of the contradiction are not planning and the market; actually, the problem that must be resolved is the contradiction between direct and indirect control.

### III. Resolving Through Practice the Issue of Methods of State Control Over Economic Activities

Since the 3d Plenum of the 11th CPC Central Committee, the experiments we have carried out in reforming the economic management system, the policies we have implemented to open up to the outside world and revive the domestic economy, and the expansion of enterprise autonomy and local economic jurisdiction have all restructured circulation channels and expanded the role of market regulation. Everyone acknowledges that the direction of reform is correct and that successes have been remarkable.

However, while reviving the economy, macroeconomic control has not kept up. At present a problem that urgently awaits solution is the problem of control, that is, the reform and improvement of planning management.

After formulating plans for social and economic development, the state must do many things to practice control and regulation so as to realize plans. What must the state primarily control? I think that the state must control the production and circulation of goods and control the distribution of national income. Both direct and indirect means of control must be adopted to exercise control in these two areas.

As for the production and circulation of goods, the state should exercise direct control of those primary goods that affect national policy concerning people's livelihood. However, is direct control attained by issuing "directive" plan targets? Historical experiences show that merely having target amounts on paper does not fully solve the question of control. Planning and control are two concepts, and considering directive planning to be equivalent to exercising control is muddled thinking. There must be practical measures of control. In the past, directive planning relied on fulfillment of accounting targets to evaluate the production results of enterprises. Nevertheless, there are numerous problems involved in assessment using targets. In order to fulfill production value, it is possible to blindly produce goods with high production value. It is also very difficult to reflect the actual quality of products by relying on targets, and because the use value of products is varied, it is very difficult to express quality norms using uniform data. Moreover, state issuance of directive targets to enterprises may be characterized as an administrative measure with rights but no responsibilities. Often planning departments only issue general production value or output targets. What are the particular varieties, what are the specifications? Where are the prospective sales targets? Who provides the required production conditions? No answers are provided to these questions. To date, control of planning targets has been decentralized, departments are in charge of output, localities demand production value and financial departments demand profits. None is connected to the other. This kind of directive target creates even more difficulties for enterprises.

To truly exercise direct control of the production and circulation of goods, besides issuing directive plans, state material and commercial departments should represent the state in ordering goods from enterprises, in clarifying variety, output, and delivery date for goods, and in carrying out a product

quality checking system (spot checks using mathematical statistical methods may be used for products manufactured in large quantities). Guarantees must also be provided for the conditions necessary for production in enterprises. The above mentioned rights and responsibilities are set down in contract form. In this way enterprises are responsible for guaranteeing the fulfillment of state orders for goods in terms of quality, quantity, and according to schedule. Material and commercial departments as well as offices in charge of coordinating enterprises must also represent the state in carrying out responsibilities toward enterprises.

By signing a contract, administrative orders become economic acts which embody a management system made up of responsibilities, rights, and benefits.

Directly controlled goods are centrally bought and sold by the state or there is planned purchasing by the state. Other goods may be selectively purchased and sold on behalf of the government or independently marketed by enterprises. These goods may be indirectly controlled by price, taxation, etc.

As for the control of distribution of national income, first, there is control of the ratio between accumulation and consumption; second, the distribution of accumulation; and third, the distribution of consumption.

As for the distribution of accumulation funds, the state should directly control investments in key construction projects. However, there must be a specific proportion in accumulation funds set aside for enterprise production construction funds which are to be independently allocated by enterprises. The state still retains ownership of this portion of the fund, while enterprises only have utilization rights, primarily for technological transformation. The extent and limits of utilization may be determined by the state. Another portion may be considered a medium- or short-term loan by the bank to support small-scale construction which corresponds to plans. The use of these two portions of the accumulation fund comes under indirect control. Economic levers may be used for regulation so as to urge production construction to meet the needs of planning objectives.

As for the control of consumption funds, in terms of the macroeconomy, there must be rational distribution of the entire consumption fund. The portion that is distributed to enterprises is the enterprise staff and worker consumption fund which includes wages, bonuses, and daily welfare expenses, etc. It is transformed into the portion consumed by individual staff and workers. It constitutes such a large proportion of the entire national income that the state must exercise control. As for enterprises, the state must stipulate the proportion of enterprise net output value in the consumption fund. Enterprises may determine independently how to distribute the staff and worker consumption funds within enterprises on the basis of labor.

The particular opinions mentioned above are of course only some ideas which are not yet fully formed. I presented these examples to demonstrate that "planning" and "control" are not one concept. There may be and there should be some directive planning, but this does not amount to a resolution of the problem of macroeconomic control, which requires the study of methods of

direct and indirect control. Under a socialist planned economic system, planning acts as a common goal which is predicted. It is entirely feasible for the state to correctly use the two means of direct and indirect control to regulate all national economic activities so that there is both autonomy in basic level enterprises and centralized, unified state leadership. The state must carry this out in a flexible but orderly manner; there must be centralization but not stifling overcentralization. This requires the concerted effort of theoretical circles and practical work departments. We must liberate ideology, seek truth from facts, earnestly analyze experiences in planning work over the past 30 years and in systems reform over the past 3 years. We must head along the new path of implementing a socialist planned economy.

### 3. Encouraging and Protecting Competition [pp 115-121]

[Text] [Editor's note] This article was published in GONGREN RIBAO, 3 June 1980, under the name "Special Commentator." [End of editor's note]

#### I. Competition Is an Objective Law of General Commodity Production

During the process of integration of planning regulation and market regulation following initial reforms in the economic system, some enterprises launched competition which revealed their superiority and vitality. A decrease in planning tasks since 1979 forced many enterprises to enter the market "seeking rice that has fallen out of the pot." As soon as they entered the market they unavoidably ran up against a competitive opponent. In the past, production was emphasized while marketing was not; whether varieties were many or few, and whether quality was good or poor, sales were guaranteed by state centralized procurement. The state also assumed sale responsibility for making a profit and sustaining losses: "The daughter of an emperor need not worry about getting married." Upon entering the market the workstyles of these "government industries" and "government businesses" were no longer satisfactory. Markets had to be found for products and consumers had the freedom to purchase selectively. Products only became popular when the products met market demand, were high in quality, and cheap. Otherwise we might as well have stopped work, stopped production, eliminated bonuses and even stopped paying wages. What could they do? The secretaries and plant managers had to personally seek out markets, pay visits to consumers, initiate services, increase variety and assortment, improve product quality, deliver goods on time, undertake responsibility for repairs, refunds and exchanges. In the past, repeated injunctions failed to work, while now things are done "automatically." What is the reason for this? Competition.

It is generally acknowledged that China's current system of economic management must be reformed. In the past year or so there has been a major theoretical breakthrough, that is, the acknowledgement that in China's current phase of socialism not only must we not abolish or restrict the commodity economy, but make every effort to develop it. Since it is necessary to implement commodity production, competition, an objective law in general commodity production, will inevitably play a role in socialist commodity production. This is not determined by the subjective will of the people.

In the past the people have associated the term competition with capitalism. For many years we have avoided mention of competition because we feared association with capitalism. Actually, this is a misinterpretation. Competition is an objective law of general commodity production, not a law unique to capitalist commodity production. Capitalists are unscrupulous in their efforts to rake in profits; they benefit at the expense of others and wage a life and death struggle in the market in which survival of the fittest rules. Under the capitalist system of private ownership, these phenomena are objectively existing facts and they are connected to competition. However, the connection between these two phenomena is not necessarily a causal one.

In terms of the inherent nature of the capitalist, it is not so much that he wants to compete as that he wants even more to monopolize. If he can monopolize the market he will seek exorbitant profits without scruple. The capitalist feels compelled to vie competitively. Competition, it should be noted, serves to promote historical advancement, while a monopoly "will inevitably give rise to the trends of stagnation and corruption." This is historical dialectics. We know that contradiction is the internal motive force for the development of things and that without it there is no movement. We can even go so far as to say that without contradiction there is no life. Competition is one form of movement in the contradiction of the general commodity economy. The use value of commodities can only change with each passing day through competition and only competition can spur on the rapid growth of science and technology. The value of commodities can only enable socially necessary labor to decrease day by day through competition while labor productivity continues to improve. During the period of China's First 5-Year Plan there was fierce competition in the state-run economy and the privately run economy. At that time the state-run economy was dynamic, it quickly triumphed over capitalist management and won great victories in socialist transformation and construction. Following the completion of socialist transformation both the system of state ownership and the system of collective ownership coexisted. There was no competition, however, and bureaucratism in economic management grew steadily such that the economic structure gradually became rigid and labor productivity dropped alarmingly. Twenty or more years of practice demonstrates that under socialist conditions commodity production becomes like an exclusive business; no other branch office exists. The market is totally monopolized and there is no competition. The economy then cannot develop in a lively and active manner. We must accept competition and use it correctly. Only then is it possible to promote improvements in the level of socialist economic management and technology and only then is it possible to accelerate even further the development of the socialist economy and fully demonstrate the superiority of the socialist system.

## II. Competition Among Enterprises

The central issue in China's economic system may be summarized as follows: Is it better to stimulate the economy further or to control it further? After some discussion, the unanimous decision was reached that it is necessary to further stimulate the economy.

In order to do this, it is necessary to change from state centralized management to state unified leadership. Under unified state leadership it is necessary to implement a socialist commodity economy and accept the enterprise as the basic unit in socioeconomic activities; to accept the enterprise as a relatively independent commodity producer; to accept the enterprise as having its own independent economic interests; and to acknowledge that the enterprise, while observing state economic policies and laws, has the right to obtain its own profits in addition to strictly performing its duties to the state. Under the planning guidance of the state, the enterprise has a certain amount of autonomy in production management. Only in



this way can the enterprise become a vital and thriving economic entity and thereby stimulate the entire national economy.

Having recognized that enterprises have independent economic interests, it is inevitable that disparities in profit levels develop among enterprises. These disparities arise from competition. The commodities or the quality and quantity of services provided to satisfy the demands of society are the concentrated expression of the results of enterprise production. The greater the contribution the greater profits should be. Actually, this is the reflection of the socialist principle of distribution according to labor and it is the chief reflection of this principle. If egalitarianism is the primary cause hindering economic growth, then the problem of "eating out of one big pot" among enterprises, regardless of management, profits or losses, is extreme egalitarianism. If we do not first solve this problem, we will be unable to stimulate the economy. Some comrades believe that under a socialist system we can only engage in emulation, not competition. As we have analyzed above, competition is an objective law of general commodity production. Unless you do not engage in commodity production, it is absolutely necessary to emphasize competition. However, socialism is after all different from capitalism. The socialist system of public ownership determines that enterprises have individual interests as well as common interests. Consequently, there are competitive relations among enterprises so that they can seek their own interests and competitive relations to increase common profits. The difference between competition and emulation is that competition is inevitably linked to material profit and is ultimately manifested in "the good winning and the inferior losing." Comrades who fear competition have misgivings concerning just these two points: they fear that emphasizing material gains will lead enterprises on the wrong path of "putting profit first," and that emphasizing the idea that the good win and the inferior lose will give rise to the tragic scene of "the failure and death of some and the triumph and control of others." This apprehension is totally unnecessary. These comrades have forgotten that we are a socialist society, our commodity economy is a commodity economy under the unified leadership of the socialist state. The state's policies and laws will protect competition and the legal rights and interests of enterprises and also supervise illegal profit-making. They allow there to be profit disparities among enterprises due to the quality of the management of production while also correcting excessively large profit disparities using economic measures. The manifestation of the good winning and the inferior losing is also different from capitalist society. During competition an enterprise's small failures result in decreased profits and are expressed as less labor and fewer profits; large failures tend to weed out the inferior and are expressed as shutdowns, stoppages, mergers, and changeovers. Enterprise leaders have to assume economic and legal responsibility while staff and workers must also sustain some economic losses. However, under state uniform overall arrangements the situation is still far removed from that of capitalism with enterprise bankruptcies, suicides by business managers, workers becoming destitute and homeless, etc. Nevertheless competition still has relatively great coercive power. In the present phase of socialism, spiritual and material spheres still lack preconditions for communism, so to only emphasize conscious emulation while ignoring

mandatory competition makes it impossible to effectively encourage advancement and spur on backward areas. It also makes it impossible to fully motivate the initiative of enterprise producers and managers. This is an undeniable fact of materialism. As a result, we must both promote emulation and protect competition. Although under socialist conditions they may not replace each other, they may supplement each other.

### III. How To Handle the Side Effects of Competition

Every object can always be divided into two; therefore we cannot say that there is no bad side to competition. During the early phase of systems reform, work in all areas did not keep pace so it was not unusual for all sorts of errors and problems to occur. For instance, since 1979, market regulation has sprung up and competition has just emerged while problems such as enterprises engaging in technology blockades and regions "carving up the land into prisons," etc., have appeared. Technology blockades affect the rapid exchange and promotion of advanced products and technology which obviously are disadvantageous to economic growth. However, it must also be realized that in the past, technological inventions and creations lacked the protection of patents, which could not encourage advancement. The state should draft a "patent law" to encourage material and spiritual incentives for inventions and to facilitate the exchange and dissemination of goods. Enterprises could then transfer or concede patent rights for compensation. In this way we can protect competition both domestically and abroad which, in the final analysis, benefits economic growth. "Carving up the land into prisons," that is, severing economic relations between regions, is certainly not a good idea. The solution is to advocate unity. On the basis of accepting individual material benefits, it is necessary to voluntarily talk things over, ensure that there are mutual benefits, use all forms of compensation, praise each other's strong points and compensate for weak points, and fully develop the strengths of each area. In this way it will be possible to obtain even greater economic results.

In summary, during the process of stimulating the economy it is only natural that all sorts of problems crop up. As long as we keep abreast in our work, sum up experiences in a timely manner, and formulate the necessary policies and legislation, we can revive rather than stifle the economy.

Continuing to increase labor productivity is the fundamental guarantee that the socialist system will triumph over the capitalist system. In order to increase labor productivity, we must strengthen ideological and political work, continue to increase the socialist consciousness of workers and the masses, carry on the communist style of work and launch socialist competition of emulating each other, learning from each other, keeping up with each other, helping each other, and in turn surpassing each other. At the same time it is also necessary to make use of economic methods, encourage and protect competition, fully develop the initiative of managers and manufacturers, stimulate economic work, and seek even better economic results. Only if China's socialist economy is in this kind of "good shape" will it present a scene of prosperity and vitality.



#### 4. Several Questions Concerning Distribution According to Labor [pp 199-205]

[Text] [Editor's note] This article was published on 21 March 1980 in GONGREN RIBAO. Some revisions and additions were made upon inclusion in this book. [End of editor's note]

The discussion launched by GONGREN RIBAO on "How To Motivate the Initiative of Staff and Workers" is essential. During the discussion many comrades talked about correctly implementing the principle of distribution according to labor, which is a key to motivating the initiative of staff and workers. However, there are many problems concerning how specifically to implement this principle in actual practice that must be explored and investigated. Below are some of my views on this matter.

##### I. It Is Not Possible To Simply Apply Marx's Classical Exposition

What is distribution according to labor? In general, we all consider Marx's discussion in his "Critique of the Gotha Program" as the classical interpretation. He said: "After each producer has made deductions he should reclaim from society all that he has given to it." He also said: "The rights of producers are in proportion to their labor; equality consists of measurement using the same yardstick--labor." (Footnote 1) ("Collected Works of Marx and Engels," Vol 3, People's Publishing House, 1972, pp 10-11, 11)

Marx's words illustrate the basic principle of distribution according to labor, that is, "the rights of producers are in proportion to their labor." However, today as we carry out distribution according to labor, it is still impossible to simply put these words of Marx into practice. Marx imagined that after implementing a system of public ownership, it would be possible to eliminate commodities and the commodity economy. Consequently, the actual labor of producers could be directly converted into social labor and, based on the amount of individual labor, they should receive their share from society. Present practice has proven that we cannot yet eliminate commodities. The "labor" in distribution according to labor is not the "labor" envisaged by Marx; it can only be calculated as average socially necessary labor. That is to say, an individual's labor must be reflected in commodities while the amount of labor that goes into commodities is only the average socially necessary amount of labor.

In highly socialized commodity production, individuals cannot directly provide labor results to society. The classics contain numerous discussions of the collective nature of modernized large-scale production. For instance, in his essay "On Authority" Engels repeatedly stressed this point. The replacement of joint activities by the "trend" towards independent activities of individuals as foreseen by Engels over 100 years ago has already become an even more striking and obvious objective reality following the development of modern science and technology.

The conversion of human labor into socially effective labor can only be expressed by having product use value. Once products are used by society, the labor inherent in the products is then acknowledged. However, in modernized production it is difficult for any one producer to say that a certain product was produced by "me." One can only say that it was collectively manufactured by economic units (enterprises) formed according to the social division of labor. Within enterprises an individual's labor only forms one part of the product; only by relying on all the workers in the enterprise is it possible to complete the whole product. Only in this way does individual labor become effective labor. Take for example the qualified semifinished goods from first line processing. If they are discarded during second line processing then the labor that went into the first line processing is tantamount to ineffective labor.

The above section has been concerned with the "quality" of labor but the same questions apply to the "quantity" of labor. The amount of labor recognized by society is naturally not specific actual amounts of labor but rather the amount of average socially necessary labor. Therefore, only through the total value of products handed over to society is it possible to measure the entire contribution made by enterprises to society. We cannot directly measure the individual's labor contribution.

Thus it can be seen that Marx's explanation of distribution according to labor can only be understood as a principle; it cannot be simply put into practice.

## II. In Distribution According to Labor It Is First Necessary To Carry Out Distribution According to the Collective Contributions of Enterprises

In the historical phase of socialism the national economy still regards the enterprise as the basic economic unit. Enterprises should have some independence. If we change Marx's exposition on distribution according to labor so that each enterprise makes labor contributions to society, and after all deductions are made all that is given to society is returned from society, this would actually correspond to our current situation.

Our feeling that "it does not matter whether we do a good job or bad, it is all the same" is a form of egalitarianism which does not help stimulate initiative. However, what we should first attack is the lack of concern about doing good work among enterprises, and only then the problem of distribution among enterprises. At present the greatest weakness of the economic management system consists of enterprises "eating out of one big pot" and engaging in egalitarianism. The overall problem of distribution according to labor has not been resolved, but within enterprises there is distribution to individuals on the basis of labor. Apparently we have put the cart before the horse. The reason for this is that we have simply used the principle of distribution according to labor to carry out distribution according to the size of individual labor contributions. We have disregarded the fact that individual labor is only transformed into social labor through enterprise products (or labor services). Thus we have also failed to consider the problem of first carrying out distribution according to the size of the collective contribution of the enterprise.

Society's implementation of distribution to enterprises according to labor is primarily manifested in the distribution of gross wages plus profits by enterprises. The profits of socialist enterprises differ from the profits of capitalist enterprises. Regardless of whether the method of profit sharing or paying income tax is adopted, both involve distribution between the state and enterprises. The portion handed over to the state is what Marx called "deductions." Enterprises do not receive all the profits; whatever an enterprise receives is directly linked to the quality of production management and the results obtained. Under the readjustment and control of the state, the amount earned by enterprises generally reflects the proportion of the enterprise's labor contribution to society. Thus we may say that it is a form of distribution according to labor.

The working class is characterized by its sense of organization and discipline and its spirit of collectivism. The emergence of such a character is inextricably linked to the modern socialized mode of production in which workers participate. The individual interests of staff and workers and the collective interests of enterprises are interlinked and determined by modern socialized mode of production. First carrying out distribution according to enterprise collective contributions leads to staff and workers being concerned about the labor results of enterprise collectives. This concern will be of help in strengthening the collectivist thinking of staff, workers, and the masses. This collectivist thinking is also inevitably a step toward cultivating communist ideology. If we ignore distribution to enterprise collectives on the basis of labor and are only concerned with distribution to individuals within enterprises according to labor, this will cause workers to only be concerned about individual, not collective results. This, in turn, would be disadvantageous to the development of enterprises and to consolidating and developing collectivist ideology.

### III. During Distribution According to Work Within Enterprises It Is Also Necessary To Stress Distribution According to the Labor Contribution of Small Collectives

Individuals cannot directly contribute labor to society, nor can society directly carry out distribution according to individual labor. Thus is it possible to carry out distribution totally according to individual labor within enterprises? This is not entirely possible.

First of all, it is very difficult to accurately measure the amount of labor performed by an individual; at best we can only approximate. It is generally acknowledged that a wage scale is one form of distribution according to labor. In fact, the differences among wage grades mainly reflect approximate differences in the work capacities of workers, not the quality and quantity of work actually done during a particular year or month. Theoretically, piecework wages are better able to reflect the quality and quantity of work actually done, but this method of piecework cannot really be adopted for all work.

Next, because labor is highly socialized, the quality and quantity of labor performed by an individual similarly cannot be completely measured by the labor results of that individual. Take piecework wages for example. A producer fulfills production norms for a specific quality and quantity. Besides that individual's ability and amount of labor expended, there are many other external factors involved such as whether the equipment is easy to operate or whether a mechanic is needed; whether tools, cutting tools, etc., are ready and usable, which is determined by the manufacture of tools and the labor of administrative personnel; whether raw materials, semifinished products, and semimanufactured goods are adequate, which is determined by the quality of material supply work and the collaborative work in first line work process; whether production can proceed without interruption, which is determined by the perfection of the production structure and management work, etc. Consequently, it does not fully correspond to reality to give full credit to an individual for individual labor results in large-scale socialized production.

Following developments in automation and combined action production technology, the continuity and integration of production has increasingly improved. A producer with automated production lines of course has no way of distinguishing or measuring individual labor results. The production work assistance and services rendered by the entire workshop are frequently closely linked and cannot be separated.

Lastly, a new problem has arisen in the modernization of production technology: the role of intellectual work is expanding. On the one hand, there has been a relative decrease in workers on the first line of production while on the second line of production there has been a relative increase of departments engaged in auxiliary work and an increase of technicians on the third line engaged in scientific research, experimentation, design and technology, and of production organization administrative personnel. On the other hand, the proportion of intellectual work even for first line workers has increased. Measuring the results of intellectual work and the quality and quantity of intellectual work is even more difficult than measuring physical labor.

From the above it is apparent that in order to implement distribution according to labor within enterprises it is necessary to determine compensation completely according to the size of individual expenditure of labor. In reality, this is difficult to do.

Such being the case, can there only be egalitarian distribution within enterprises? Of course not. The primary means for resolving the above-mentioned contradiction is to stress distribution within enterprises according to the labor contributions of small collectives so that individual material interests not only are linked to the business results of enterprises but also to the labor results of small collectives (administrative offices, workshops, workshop sections, teams and groups, production lines, etc.).

To sum up the above, in order to implement the principle of distribution according to labor within enterprises, it is necessary to interlink individual interests of staff and workers to collective interests. The source of individual interests of workers can roughly be seen in these three areas:

1. Distribution in which basic wages are obtained based on individual work capacity and according to the grade stipulated. This is an important part of distribution according to labor.
2. Actual distribution in which living wages are obtained based on the quality of enterprise business results which determine the level of living wages (including awards, year-end bonus sharing, etc.) and based on the extent of individual or small collective contributions. This is also an important part of distribution according to labor.
3. Based on the quality of enterprise business results, different levels of collective welfare benefits are enjoyed (including housing, welfare benefits for children, recreation, etc.). Although these benefits are not directly linked to individual labor, they are obtained when society carries out distribution to enterprise collectives according to labor. Thus this is also an important part of distribution according to labor.

The major part of these above three interests comes from collective results. It is necessary to encourage workers to not only work hard to increase individual capacities but also to be concerned with the collective so as to strengthen internal unity and cooperation and to strive to improve collective results.

When society implements distribution according to labor in enterprise collectives and enterprises also implement distribution to workers according to labor, this causes workers to care about collective and individual labor results in terms of material benefits. At the same time, we should also guide workers and the masses to be concerned with state interests. To this end, it is necessary to strengthen the ideological and political instruction of workers and to carry out the necessary reform of the economic management system. The state must directly bear the costs of some social insurance and welfare benefits and, in keeping with national economic growth, continue to upgrade the level of these welfare benefits. In this way it is possible to ensure that staff and workers better acknowledge the unanimity of the three interests--the state, the collective, and the individual--and improve their socialist awareness so that they consciously make greater contributions to the state.

## 5. Distribution According to Labor and the Wage System [pp 222-258]

[Text] [Editor's note] This article was presented by the author on 24 November 1981 to the "National Labor Wage Research Group" held by the State Central Labor Bureau. [End of editor's note]

The topic under discussion is distribution according to labor and the wage system. There are theoretical considerations concerning this matter as well as actual experiences, particularly the former. I will neither discuss wage theory nor devote myself to practical work in labor wages. I am not qualified to speak of this either in terms of theory or practice. Everyone may read my article, "Several Questions Concerning Distribution According to Labor," published by GONGREN RIBAO in 1980, and my later article, "A Look at the Principle of Comprehensive Material Interests," also published by GONGREN RIBAO. These two articles aroused the interest of numerous grass-roots level comrades. Since at that time wages were being restructured and these two articles discussed the very question, much interest was aroused. Although reactions were relatively strong, this does not mean that the articles contained any remarkable truths or proposed programs with great practical significance. I have merely kept abreast of the tide. There were those in theoretical circles who wrote articles discussing my views. Some said that they strongly approved of my ideas on wage reform but that my theories merited some discussion. I feel just the reverse. I feel that my suggestion concerning the wage system is only a tentative proposal and not necessarily fully geared to reality. I feel that comrades here today could recommend even better plans for reform.

There is, however, some justification for my opinions. Of course, I am not a specialist on distribution according to labor and I have not made an overall in-depth study of the writings of Marx, Engels, Lenin, and other classical writers. Moreover, it is not possible to go into much detail on theory in a short article, particularly when it concerns distribution according to labor. There is much controversy over many questions, so it is necessary to go into some detail on my own opinions and this requires quite a bit of space. Nevertheless, the problem I mentioned, that one cannot merely focus on distribution according to labor to the individual, is a very real problem.

Theories must be able to answer real problems. I have not yet had the time to write a response to those several articles that discuss my ideas. However, real life has provided convincing answers on my behalf. In 1981 the system of economic responsibility was promoted everywhere in order to resolve the two problems of "one big pot." The essence of this system was to resolve the problem of the two levels in distribution according to labor. Furthermore, actual practice has shown that even within enterprises it is not possible to completely carry out distribution directly according to individual labor. Each enterprise has created many methods of distribution according to labor which put the collective first and the individual second. This has been necessitated by objective reality. We are here today to carry out discussions. This is very good, for I now have the opportunity to go into a bit



more detail on my own unformed opinions. We are all senior comrades, we have had rich practical experiences and done specialized theoretical research. I hope you will help me figure out where I am mistaken and where I am correct. Thus, I basically will not present a report but rather offer a few remarks in the hope that you will offer your valuable opinions! I will present some opinions so as to solicit your ideas and, on this basis, I am here today to deliver a talk.

## I. The Socialist Distribution System

Distribution is a major link in our overall socioeconomic life. Different social systems have different distribution systems. In a certain sense a distribution system is often an important indicator of different social systems. Distribution refers to distribution in the broad sense; it involves distribution of the means of production as well as the means of subsistence. According to various theories of Marxism, production distribution determines the distribution of consumer goods. Distribution according to labor is just such a link; it refers to distribution of the means of subsistence.

We believe that the distribution system is often an important indicator of a social system. In terms of our socialist system, this is quite obvious. What characteristics does a socialist society possess? We could discuss many different areas, but there are at least two indicators of a socialist society: the system of public ownership and distribution according to labor. In reality the system of public ownership implies distribution of the means of production. A capitalist society has a system of private ownership and the means of production are completely owned by individuals. In the socialist system of public ownership the means of production are owned by all the people or by the collective. This is essentially a question of distribution of the means of production. Distribution according to labor refers to distribution of the means of subsistence. According to Marxist economic theory, the distribution of the means of production determines the distribution of consumer materials. Therefore, if the means of production are privately owned, there cannot be distribution according to labor. There must first be distribution on the basis of capital. Theoretically, this capital must be distributed according to the average profit rate and amounts of capital involved. Of course, in actual distribution, because of competition and other reasons, there may be unequal suffering and joy, the inequality of suffering and joy within capital. Under such conditions the labor force is a commodity, as workers and employees consider their own labor a commodity. Exchange is carried out according to the market price and capital of the labor force in order to obtain distribution of a share of products. After the means of production has changed to the system of public ownership, it is possible and inevitable that the method of distribution according to labor be adopted. Of course, when a communist society comes about in the future it will change to distribution on the basis of need. In the socialist phase we must still adopt the method of distribution on the basis of labor.

Today we must explore distribution according to labor. That is, how are the consumer goods produced by society ultimately to be distributed? This question is essentially inseparable from the overall distribution system; we cannot discuss it in isolation. We clearly run into this question in our current initial experiences in carrying out system reform. Distribution according to labor necessarily involves other distribution questions. For instance, we frequently bring up the question of correctly handling the three interests of the state, the enterprise (collective), and individual staff, and workers. What does this issue involve? Basically, this is a question of how to make the entire distribution system more rational.

In my two 1980 articles I suggested that distribution according to labor be divided into two levels: first, carry out distribution according to labor among enterprises to solve the problem of enterprises eating out of "one big pot"; second, carry out distribution according to labor within enterprises to solve the problem of employees eating out of "one big pot." Some comrades in theoretical circles believe that among enterprises the problem is exchange of equal value, not distribution according to labor. The problem of distribution according to labor exists only among staff and workers. There is some basis for this view. Naturally the problem of equal value exchange exists among enterprises. My enterprise produced a machine tool and sold it to another enterprise. According to the principle of equal value exchange, my enterprise should have received payment (assuming that the price was reasonable and the price and value of the machine tool were equal). This payment would constitute the enterprise's sale income. If it is a privately owned enterprise, once the act of equal value exchange has been completed, it is practically as if distribution has been out. Since capitalists make use of wages and the labor force of workers to carry out equal value exchange, production costs are deducted from income from payments and the remaining profits are distributed into their pockets. Comrades who maintain this view have forgotten that the net income realized by our socialist enterprises, particularly state-owned enterprises, does not entirely belong to the enterprise. It must be distributed between the state and the enterprise. As for the current procedures in system reform, a share is delivered to the state through the method of tax revenue and profit delivery while another share is retained by the enterprise. This share retained by the enterprise, "profits," is further divided into the production development fund, the collective welfare fund, the bonus fund, etc. One portion of these funds is still owned by the state but the enterprise has allocation rights; the other portion is transformed into income for individual staff and workers. The principle we are presently observing is that not only must the income of individual staff and workers be linked to individual labor results, it must also be connected to the enterprise's overall production results. That is, it makes a difference whether the enterprise does well or badly. If an enterprise does well workers should receive more income. This no longer involves the matter of equal value exchange, then, but rather distribution. Consequently, once there is equal value exchange between enterprises, the question of distribution remains.



During system reform, regardless of whether profit sharing or profit contracts are implemented, the difficult problem of "unequal suffering and joy" will occur. What is the meaning of "unequal suffering and joy?" If we say that doing well or badly should make a difference, then this means that unequal suffering and joy is rational. So, those who do well should be joyful and those who do badly should suffer. At present unequal suffering and joy refers to enterprises which are on a par in terms of subjective effort. Some may obtain higher profits and some lower to the point that wide disparities may exist. This phenomenon is considered irrational and unequal suffering and joy. In capitalist enterprises this phenomenon is basically not a problem. On the contrary, every capitalist hopes that he will obtain superprofits that surpass the average profit rate and even hopes to reap colossal profits. What he seeks is personal joy at the expense of the suffering of others. We require that doing well or badly makes a difference and oppose the latter sense of unequal suffering and joy. Thus, wherein lies the problem? It lies in seeing to it that the profits obtained by enterprises are consistent with the extent of their subjective effort. What is the extent of an enterprise's subjective effort? It is simply the amount of labor contributed by an enterprise as a whole to society (including the quality and quantity of labor). How specifically to measure the amount of labor is a problem that needs to be studied. In principle, we are now introducing the problem of distribution to the enterprise as a whole according to labor.

When Marx discussed distribution according to labor he said that it was first necessary to make "deductions," namely, first deduct the portion handed over to the state (on behalf of all workers) and then carry out distribution among individual workers. However, he never explained the criteria for this deduction. How much should be deducted and how much retained? Another question has been raised by actual practice, that is, how to rationally handle the distribution of profits between the state and enterprises.

The problem of distribution has been discussed in the field of political economics. It is believed that there are two instances of distribution of national income under a socialist system. The first instance of distribution (initial distribution) takes place within material goods production departments and constitutes the original income of the socialist state, the collective economy, and production department workers. The second instance of distribution takes place later with distribution of national income (redistribution). Income is used for construction investments, to establish social welfare undertakings, and for expenses in culture, education, public health, national defense and administrative management, the wages of non-material production personnel, etc.

From our practical experience it can be seen that there has been some change in these two distributions and the way they should be implemented on paper. The first instance is distribution between the state and enterprises; the second is redistribution. Not only must there be redistribution of national income but also redistribution of enterprise income among employees. The principle of distribution according to labor must be applied to the distribution of the means of subsistence during these two instances of distribution.

In the first distribution, distribution between the state and enterprises, it is necessary to embody distribution according to labor to the enterprise as a whole. That is, it is necessary to ensure that enterprise earnings (this refers to that share which is used for individual worker or collective consumption such as wages, bonuses, welfare expenses, etc.) are consistent with the quality and quantity of labor expended by the enterprise and to overcome the phenomenon among enterprises of eating out of "one big pot." During redistribution or distribution within an enterprise, the share of nonproduction personnel income must also conform to the principle of distribution according to labor. To this end, the principle of distribution according to labor should be reflected in the overall socialist distribution system and not only be limited to distribution among individuals within an enterprise. Furthermore, society's distribution to enterprises according to labor should still be the prerequisite for distribution according to labor within an enterprise.

## II. Society's Distribution to Enterprise Collectives According to Labor

Is it possible to ignore distribution to enterprise collectives according to labor and only focus on distribution to individual workers? I believe that experience has proven that this approach entails numerous problems. Since we acknowledge that under a socialist planned economic system it is still necessary to have commodity production and to apply the law of value, then theoretically, it makes no sense to try to depart from commercial successes and go on to directly measure individual labor expenditures to society. In practice this would inevitably give rise to numerous contradictions.

The article I published in 1980 in GONGREN RIBAO raised one issue. Marx's exposition on distribution according to labor is correct as an elaboration of a principle but, in terms of specific descriptions and methods, it requires further exploration. Based on his statements on distribution according to labor in his "Critique of the Gotha Program" and according to his argument, each individual provides a certain amount of labor to society, and once all of society's demands have been deducted, a proportionate amount of labor is recovered from society. I have proposed a different view of this point. I am not trying to be different merely for the sake of being different, but rather because if we simply follow this idea in actual practice, we will find numerous contradictions. We are Marxists and as such endorse the fundamental tenets of Marxism. Nevertheless, we cannot accept that everything Marx said is absolutely accurate in any given context. Real life is ever-changing, and thus we should proceed from real problems to explore and understand the spiritual essence of the fundamental tenets of Marxism. The actual wording may be revised and supplemented.

In general, when we discuss distribution according to labor and its definition we primarily cite Marx's statement in his "Critique of the Gotha Program": "After each producer has made deductions he should reclaim from society all that he has given to society. What he has given to society is his individual labor." (Footnote 1) ("Selected Works of Marx and Engels," Vol 3, People's Publishing House, 1972, pp 10-11) These lines explain that under socialism, that is, the early stage of communism, the distribution of

the means of subsistence among individuals must be linked to their labor. Of course, it is not possible to return all the labor results of an individual to that individual. It is necessary to set aside some of it to satisfy the needs of society, including state management, social welfare, etc. Therefore, it is necessary to make deductions, and that remaining portion is distributed proportionately according to the different amounts of labor expended. For every unit of labor expended, an individual should reclaim a certain proportion of that unit of labor, not the entire unit of labor. Thus the general tenet is entirely correct.

Nevertheless, there is a problem here. Marx spoke of workers claiming from society all that they have given to it. This means that "expended" and "reclaimed" are the direct actions of individuals against society. This point merits further discussion. At that time Marx imagined that after implementing a system of public ownership, commodities would be eliminated and the concrete labor of workers would become direct social labor. Practice has shown, however, that a socialist society must still implement commodity production. Society must acknowledge the average socially necessary labor inherent in commodities. It is not actual labor. Moreover, large-scale socialized production differs from small commodity production in which individual labor may be directly provided to society and later directly recovered from society. To be sure, today we still have some self-employed workers such as door-to-door shoe repairmen. They come to repair shoes upon request and receive money for their work. They provide labor directly to society and receive compensation directly from society. This is simple, individual labor. At the present time most production is large-scale socialized production. As Marx and Engels emphasized in many places, in socialized large-scale production, who can say whether "I" produce this product or not. For instance, we cannot say which specific person manufactured the amplifier and thermos in use right here. Both are the end products provided to society after socialized, collective, and shared labor. Consequently, when implementing commodity production under conditions of large-scale socialized production, it is very difficult to change individual labor directly into contributions to society. Still, these words of Marx currently have a great impact on us as we actually implement the procedures for distribution according to labor. Our current methods are based on this statement; therefore, the very mention of distribution according to labor refers to distribution to individuals. If we measure individual labor according to overall norms and then determine compensation according to the amount of labor expended, one can see that an intermediate step is missing. Individual labor must coalesce into collective labor results and it must be measured according to average socially necessary labor. Only then can individual labor become valid labor recognized by society, and only then can the individual receive his due compensation from society.

Some comrades cite Marx's statements made elsewhere. For example, he stressed that numerous individual labor efforts be used as one social labor force. They use this to show that Marx regarded the labor force not in isolation but rather as a component part of the social labor force. I believe that during the commodity production and exchange that we still implement

implement today, if labor expended by individuals directly constitutes a part of overall social labor, for instance if today I worked 8 hours and regardless of results I am recognized as part of overall social labor (for example, workers throughout the country work 4 billion hours), then we have actually become a communist society which disregards commodities. As a communist society does not engage in commodity production, it would not be necessary to have distribution according to labor but rather according to need. There would be no necessary direct connection between the distribution of the means of subsistence and the amount of labor expended by individuals. At that time the concept of value may still exist as a means of calculating labor but, according to the current concept of value, it will no longer exist. Therefore, at that time when we directly expend 8 hours of labor it is equivalent to 1/500-millionth of the 4 billion hours put in by all society, and we may directly calculate the amount of labor as a part of overall labor. Can we do this at present? No, we cannot. At present, can we say that if you work 8 hours it is acknowledged that you created 8 hours of value? That is similar to what Marx said somewhere else: the most clumsy carpenter can create the highest value. If the average socially necessary labor for one chair is 4 hours and today I spent 8 hours making one, then I have contributed 8 hours to society. In a communist society perhaps one may say that because each labor effort is one part of a total labor, 1 hour of work is a contribution of 1 hour of total labor. With our current commodity production we cannot look at labor in this way; it is necessary to measure it according to average socially necessary labor.

In his "Critique of the Gotha Program" Marx said: "The same principle is in effect here as in commodity equal value exchange, that is, a certain form and amount of labor may be exchanged for the same amount of labor of another form." (Footnote 2) (Ibid., p 11) However, this "amount" that he mentions is the amount of labor that is considered to be a direct part of society's total labor. In today's society this is impossible. At the same time, herein lies the answer to the question that has come under much discussion, namely, what does the term "labor" in distribution according to labor refer to? This has been discussed at several conferences on distribution according to labor. Based on the above, I believe that the "labor" in distribution according to labor first of all refers to abstract labor, not concrete labor. Different forms of actual labor are involved when a carpenter makes a chair, a blacksmith forges iron, or a machinist makes a machine. In theory, however, we can suppose that he expends a certain amount of abstract general labor. This is a fundamental principle of Marx's from his analysis of commodities. Next, how is the amount of abstract labor measured? According to Marxist economic theory, abstract labor is calculated using time. There is still the problem of "quality" of labor. We must differentiate between simple and complex labor, ordinary labor and intensive labor. One hour of complex labor may be equivalent to 2 or even 3 hours of simple labor and 1 hour of very intensive labor may be equivalent to 2 or 3 hours of less intensive labor. After converting quality into quantity, quantity may be calculated using time. What is this time? We cannot say that actually doing x number of hours of work is equivalent to x number of hours. We can

only make calculations according to average socially essential labor, that is, necessary time.

What then is the "labor" in distribution according to labor? Average socially essential labor time. This time is manifested in the value of a commodity. Of course, commodities also have an actual price and price is not necessarily equivalent to value. It may be either higher or lower than value but that is another question altogether. How are we to understand average socially necessary labor? A capitalist society depends upon market competition for regulation and on the natural occurrence of large volumes of spontaneous exchange. How about a socialist society? Since a socialist society must still carry out commodity production, socially necessary labor time basically must rely on the market. However, we also have a planned economy so that our competent economic departments can adopt methods such as surveys, statistics and comparisons and, according to the law of value, consciously set down some prices and ensure that these prices correspond as much as possible to value and to average socially necessary labor time. But what does average socially necessary time refer to? I believe that first of all it refers to all commodities. It is very difficult to directly pinpoint the average socially necessary labor time for all the parts and labor that go into commodities. For example, relatively precise data on the labor that goes into a machine and the average socially necessary time may be found by means of statistics. As for a certain part for a machine such as an axle, it is only manufactured after going through a crude lathe and a refined lathe and then such processes as grinding. Is it possible to figure out the average socially necessary time for the crude lathe, the refined lathe, and grinding? Theoretically, this is not absolutely impossible. However, the scale of production throughout the country is so large. The variety of products so great, the number of parts so numerous, and the manufacture of each part requires so many processes, that realistically it is not possible to calculate the average socially necessary time for each process using statistics.

The common characteristics of some production processes are quite numerous. For example, textile production processes are basically the same so it is possible to determine the average national standard for each process and position. For most industrial products it is still necessary to regard the end product as the commodity and the result of collective labor and use it to represent the socially necessary labor time expended by this collective for society. This means that regardless of the number of people in your factory and regardless of the actual amount of labor time spent, society can only measure the labor supplied by this factory collective according to the quality and quantity of the product produced and according to the socially necessary time of the unit product. For instance, manufacturing a diesel engine requires an average of 500 man-hours. Your factory actually spends 600 man-hours, yet it is accepted that you supplied society with 500 man-hours of labor. Another factory spends 400 man-hours manufacturing the same kind of diesel engine, that is, 400 man-hours of real labor. They have supplied society with 500 effective man-hours. A measurement of the amount of labor expended for society based on the end product is actually

the net product value of the product. Some of this labor may be measured by statistics and some may not, so it is also necessary to rely on market regulation.

To sum up the preceding ideas: the "labor" in distribution according to labor refers to average socially necessary labor. To measure this necessary labor we must measure the labor result, that is, the final commodity. Consequently, in distribution according to labor, it is first necessary to measure the labor results of enterprise collectives and carry out distribution to enterprises according to labor. However, another problem emerges at this point which was also touched upon at the conference on distribution according to labor: Is it possible to measure the amount of labor or the size of the labor contribution totally based upon the labor results? The extent of labor productivity does not depend only on the efforts of workers, it is also affected by technological conditions and the situation regarding natural resources. The technological facilities in some plants are quite advanced and productivity is high, while in others technological facilities are obsolete and productivity is low. There is also the situation regarding resources such as the mining of coal and the extraction of oil: if conditions are favorable, it is easy to extract resources, and if not, it is very difficult. Because these objective conditions outweigh the average income made by socially necessary labor, we call it "graduated income." Under a socialist system, because the means of production, particularly resources, are publicly owned, some of the workers do not possess all of this graduated income. There must be regulatory measures for specific amounts and once they are deducted product results can then reflect the labor expended by the enterprise for society. How to advantageously adjust this graduated income so that this can reflect the results of the enterprise's overall labor is a major difficulty that we encounter daily in real life.

During system reform the problem of "unequal suffering and joy" has been encountered in the implementation of profit sharing and the economic responsibility system and in the contract system. The first major cause for this phenomenon of unequal suffering and joy is irrational prices which have appeared over the years, and the second is this problem of graduated income. Some provinces and cities, particularly Sichuan, have experimented with substituting taxes for profits and assuming responsibility for profits and losses as well as adopting the method of an adjustment tax to regulate the unequal suffering and joy created by prices and graduated income. As for the problem of prices, the future reform of the pricing system will gradually make prices more rational. Only by adopting a property tax and a resource tax will it be possible to further readjust the problems of graduated income. By summing up experiences it is possible to find a way to specifically determine these adjustment taxes.

A product, if the price is rational, can reflect its total value. It is the net product value that remains after deducting material expenditures (previous materialized labor). After once more deducting the influence of some objective factors, what remains may reflect the labor expended by this



enterprise collective for society. Should the enterprise collective fully recover from society this portion of labor income? No. According to Marx's principle of distribution according to labor, it is first necessary to make all "deductions," that is, to distribute this labor between the state and enterprise collectives.

Under a capitalist system the newly added labor created by staff and workers is distributed between workers and capitalists. Workers can only obtain wage income based on the market price of the labor force. The rest is considered surplus value belonging to capitalists and is divided up among several exploiting classes. Capitalist enterprises also pay taxes to the state, but it is essentially quite different from the "deduction" we have been discussing. We have a system of public ownership and have eliminated exploitation; therefore, the new labor value created by workers in part belongs to the individual and in part is handed over to the state through taxation or profit delivery. Furthermore, the portion received by the state, in addition to being used for expenditures on public works, is also used for construction. Some of it is also used as the social welfare reserve fund, etc. to benefit all working people. Therefore, in general, workers all work for their own sakes. However, first deductions must be made in the process of distribution. This is called the first distribution in political economics. Then, the state and the enterprise must carry out redistribution. The enterprise collective has supplied society with labor and after making deductions the remainder should be in proportion to the size of the labor contribution. Similarly, it should embody the principle of more gains for more work and fewer gains for less work. Following this, the second distribution is carried out within the enterprise from small collectives down to individuals.

What does this aforementioned portion of labor owned by enterprises refer to? We say that the more the state takes in, the more the enterprise retains and the more the individual receives. Does the portion that is "retained" in the profit retention currently in effect refer to this distribution discussed above? No. The "retention" that is currently in effect includes production development funds, collective welfare funds, bonus funds, etc. Of these, only the portion which may be directly converted into individual worker or collective expenditures is the aforementioned distributed portion. Moreover, wages which are not included in retention also come under the distributed portion mentioned above. At present, when we speak of profit retention, profit contracts, etc., we often simply say that the share retained by the enterprise is enterprise "profits." This is a vague and ambiguous concept. Many contradictions currently exist in the retention system and I believe this is strongly related to the confusion over this concept. Only by clarifying distribution relationships in theory is it possible to resolve these contradictions in the retention system.

As all those who have studied political economics know, in Marx's analysis of capitalist commodity production he divided commodity value  $W$  into  $c$ ,  $v$ , and  $m$ .  $c$  represents materialized labor, that is, the depreciation of equipment, raw material compensation, etc. Thus, this is the reflection of previous labor in product value. At present new labor is broken down into two

parts: One part is called  $v$  and it refers to workers' wages. Capitalists exchange this with workers according to the value of the labor force. The rest is known as profits and it is the surplus value that belongs to capitalists. The value of a commodity is generally made up of these parts. We currently have a socialist system and naturally we cannot continue to use these concepts, but numerous accounting methods actually continue to use this formula. For example, in computing the cost of production,  $c$  and  $v$  are still added to determine cost; thus cost includes wages. The remainder  $m$ , what we call profits, in the past belonged to capitalists, but no longer. Prior to system reform this portion was basically handed over to the state. In order to make a distinction from capitalism, the definition has been changed somewhat. We define  $v$  as "labor on behalf of the individual" and  $m$  as "labor on behalf of society." In reality we have not resolved the problem of making an essential distinction. With system reform contradictions have appeared and  $m$  has had to be divided up: part goes to the state and part is retained by the enterprise. So, is the part retained by the enterprise "labor on behalf of the individual" or "labor on behalf of society?" It is hard to say.  $c$ ,  $v$ , and  $m$  are all economic categories of capitalism that cannot be fully and indiscriminately applied under a socialist system. If we apply them, their meaning changes completely. Some comrades have raised a question: Does the economic responsibility system that is currently in effect involve distribution according to "labor" or according to "profit?" This question is appropriate. The contradiction is in the word "profit." Below I will discuss my own views.

We still use the term profit but its meaning certainly differs from capitalist profit. In implementing profit sharing part is given to the state and part retained by the enterprise. If we were to apply the old concepts,  $m$  would be divided into two parts. One part,  $m_1$ , is assigned to the enterprise and one part,  $m_2$ , is delivered to the state. For example, the state gets 90 percent and the enterprise 10 percent. However, there are many ambiguities here. If we take out part of  $m_1$  retained by the enterprise for bonuses it changes into  $v$ . If still another part is taken out for the production development fund to carry out excavation, renovation, and transformation, it becomes a fixed asset and changes into  $c$ . Therefore, the concept behind  $m$  is very vague. We now have to study distribution according to labor. What actually is the amount of "labor" produced by an enterprise? How much is to be "deducted" for the state? How much remains after deductions? It is difficult to answer these questions using  $c$ ,  $v$ , and  $m$ . Is the part remaining after deductions  $m_1$ ? No.  $v$  is also the part acquired by staff and workers. As we currently carry out distribution according to labor can we only focus on  $v$  and only focus on wages? No, that is not possible. The more I work the more I earn, and if the enterprise is successful, it may redistribute some earnings so once again I may gain some advantage. However, when calculating cost, wages are fixed and unchanging. In Sichuan there are some plants that are implementing substituting taxes for profits. They have taken a step forward and included wages and bonuses in profits. I think that they have actually found a practical way out. In this approach a new cost concept arises. Cost is primarily  $c$ ; that is, after compensating for consumption of fixed assets, raw materials, and other materialized labor, the remainder is



"net output value." When there are rational prices net output value may reflect the new value supplied by an enterprise to society. If we continue to use the categories of  $c$ ,  $v$ , and  $m$ , then net output value equals  $v + m$ , and if we add national net output value, it equals national income. National income also includes  $v$  and  $m$ . This kind of differentiation should first be made conceptually. Then the state must carry out distribution among enterprises. In terms of the categories of  $c$ ,  $v$ , and  $m$ ,  $m$  may represent the part distributed to the state. It should include taxes and profits and because of this, it is not wise to call  $m$  profits, rather we should call it national income.  $v$  then is enterprise income but it refers to the gross amount of the expenditure reserve fund which is converted into expenditures of staff and workers. It includes wages, bonuses, and various welfare expenditures but excludes the welfare construction fund, i.e., hostel construction. It is still a fixed asset of the state enjoyed by staff and workers but it does not belong to staff and workers, so it requires separate handling. This  $v$  is a new concept. Under a capitalist system  $v$  refers to wages and is determined by the price of the manpower market. The market price fluctuates, sometimes it is high and sometimes low. When the market is thriving, workers are not easy to find and the cost of labor is very high, but when there is a slump, more and more workers are unemployed and labor is cheap. However, in overall product value, since  $v$  is like  $c$  in that it is a constant amount, it can be compared to raw materials. Its price may rise or fall. But, as a relatively constant factor included in cost, the remaining surplus value  $m$  is all considered  $v$ . The situation is different under socialism.  $v$  should not be a constant amount. Since our workers are not employed workers, manpower is not a commodity.  $v$  is self-produced and after the value produced is deducted according to a certain proportion, the remainder is distributed to individuals. Only in this way is it possible to conform to the principle of distribution according to labor. The amount of labor provided to society is  $v + m$  and, after deducting  $m$ , the remaining  $v$  is recovered. Therefore, when I work well  $v$  is large and when I work poorly  $v$  will be small. This kind of distribution is distribution according to labor not according to profit.

We are now implementing enterprise profit retention. The part retained is not completely for individual consumption. A large part of it is used to expand reproduction and increase welfare facilities. This part is not  $v$ , it is still owned by the state. The enterprise only has allocation rights, not ownership rights. At present this concept is vague. That part that is retained includes both the funds for individual consumption and the part retained for expanding reproduction and welfare facilities. Both are considered enterprise profits. Not only is this inconsistent with the concept of distribution according to labor but it also contradicts the essence of the system of ownership. After implementing profit retention the fixed assets formed by the establishment of the production development fund, known as enterprise "independently controlled capital," have increased over time. What system of ownership do we have? If this capital is handled in such a way, there will be problems in the long term and in the whole social system. The production development fund is to be allocated by the enterprise but the fixed assets still belong to the state. In reality, it is redistribution

of state income  $m$ . Part of state income  $m$  goes for expanding the accumulation of reproduction, namely, the capital construction fund. Part of this fund may be handed over to the enterprise which can make allocations for utilization. The amount distributed by each enterprise may be related to enterprise business results but it is not considered  $v$  in enterprise loans. The part of the collective welfare fund that is used for construction of welfare facilities (such as construction of hostels, hospitals, etc.) is also the redistribution of state income  $m$  which is used for welfare construction funds. Part of this is handed over to the enterprise which can make allocations independently. Once construction is completed it still belongs to the state but is used by the enterprise. Moreover, there should be utilization with compensation, that is, a hostel must pay in depreciation to the state. As for enterprise housing subsidies for workers, that is considered a welfare expenditure and comes under the category of  $v$ . Based on the principle of distribution according to labor,  $v$  refers to what is really owned by enterprise workers, that is,  $v$  is the means of subsistence or labor services that may be distributed to individual workers or for collective enjoyment. It is this part that is the true profit of enterprise staff and workers. The rest still comes under the category of "deductions" and not under the category of distribution according to labor. Such questions of theory require accurate answers.

Precisely because there are such views as the ones mentioned above, I developed a view of two levels in distribution according to labor; that is, in distribution according to labor there must first be distribution based on the enterprise and then distribution based on the individual.

### III. Distribution According to Labor Within an Enterprise

Distribution within an enterprise involves the overall wage system; it is an extremely complex problem. I am really not qualified to discuss how to reform the wage system, I can only present my views concerning the principle of distribution according to labor.

Based on the principle discussed above, in distribution according to labor it is first necessary to carry out distribution to enterprises. This means that after deductions are made from the newly added labor of enterprise workers, the remainder should become enterprise income. This income ( $v$ ) belongs to all staff and workers in the enterprise. It is equivalent to the net output value of the enterprise. The nature of the amount remaining after subtracting taxes and profits handed over to the state differs from the concept of the wage system currently in effect. It consists of the enterprise expenditure reserve fund and includes the entire means of subsistence (or labor services) which can be used by individual workers or the collective.

I believe that in the restructuring of the wage system it is not only necessary to look at wages, bonuses, and other concepts currently in effect, but comprehensive consideration must also be given to how to carry out distribution of this "enterprise income" within an enterprise.

The 3d Plenum of the 11th CPC Central Committee raised the matter of system reform, and during the past several years of actual practice enterprise autonomy has begun to expand. I believe that this step is correct. The enterprise is not only a place where productive forces directly exercise their functions, it is also the concrete manifestation of production relations. If we say that the chief characteristics of socialism are the system of public ownership and distribution according to labor, then these two characteristics are both reflected in the economic cell known as the enterprise. Of course, system reform should consider this as its basis, define its characteristics and its active model, and then proceed from this basis to establish a completely corresponding higher level and a system of macro-economic control.

What is the nature of enterprises under a socialist system? There has been a major theoretical breakthrough after these past 2 years of investigation: It has been recognized that socialism still needs commodity production under a planned economy. Consequently, a socialist enterprise inevitably comes under the guidance of a national planned economy with relatively independent commodity producers. The term "relatively" is the key word here. Our enterprises differ from those under capitalism, which possess absolute independence. Relative independence means that an enterprise can only exercise independent management, independent accounting, and assume responsibility for profits and losses within the sphere permitted by state laws and under the guidance of state plans. The chief point about relative independence is that it has relatively independent economic benefits.

How are the relatively independent economic benefits expressed in concrete terms? During the experiment of system reform the methods of profit sharing, profit contracts, etc. were adopted. But, just as I mentioned earlier, due to the influence of outdated concepts, these methods failed to clearly distinguish the limits of the relatively independent economic benefits of enterprises. Only by implementing distribution according to labor in enterprises is it possible to clarify this problem. The so-called relatively independent economic benefits refers to the newly added labor created by enterprises under conditions of rational pricing. It is distributed between enterprises and the state. The part retained by the enterprise must be in proportion to its collective labor contribution. If the results of enterprise production are good, the enterprise will receive comparatively higher profits. This is the principle of distribution according to labor, more work more profits, less work fewer profits, and no work no profits.

As for how this share of income received by the enterprise should be distributed within the enterprise, normally the enterprise should have total autonomy. Nevertheless, socialist enterprises are not absolutely independent. Even with distribution within an enterprise it is still necessary to implement some centralized state regulation such as unified wage standards formulated by the state. However, there must not be excessive state intervention. Enterprises should decide on wage scale assessments, increases, decreases, bonuses, or bonus sharing.

Concerning the implementation of distribution according to labor in enterprises, the state has stipulated the proportion of enterprise income and state income in net output value. There is no need for the state to once again directly control an enterprise's gross wages and total amount of bonus money. The state must control the proportionate relationship between consumption and accumulation of national income and primarily regulate the proportion of enterprise income and state income. Once this proportion has been set, the relationship between the amount of enterprise income and the amount of labor supplied by the enterprise to society should be such that "when the river rises the boat goes up" and "when the river subsides the boat goes down." Only in this way is it possible to motivate enterprise initiative.

In the implementation of two levels of distribution according to labor, namely, distribution to enterprises followed by distribution to individuals, the difference between this and the earlier form of distribution according to labor only to individuals is that the amount of income of an individual worker is not only determined by the amount of individual labor expended but, above all, by the amount of enterprise income.

Not all enterprise income is distributed to individuals according to labor. Part of it goes for collective welfare expenditures such as housing subsidies, subsidies for children, medical expenses, financial aid, etc. This is not considered distribution according to labor, but every worker has the right to these benefits. Enterprise workers should determine of their own accord the proportion of enterprise income that these expenditures should constitute as well as which welfare services should be undertaken.

Besides paying for collective welfare expenses, the part remaining is the part directly distributed to individual staff and workers. The problem at present is how to distribute this amount on the basis of labor. Personally, I believe that the distribution of this amount within an enterprise should in principle first proceed with distribution to small collectives (workshops, teams and groups, administrative offices, etc.) and then with distribution to individuals, or we may consider combining the two. Why should this method be adopted?

First, even within an enterprise it is very difficult to measure the amount of labor totally based on individual work conditions. At present most people think that it is possible to solve this problem by setting an average advanced labor standard within an enterprise. Those who have done actual work in setting standards know that the problem is not that simple.

There are two situations in which it is relatively easy to set standards: One is labor which is simple, isolated, and highly repetitive. Take for example goods of a certain weight which must be transported using physical strength. Only one article can be carried at a time or one package moved at a time, yet because conditions in transportation distance and stacking requirements may differ, it is very difficult to make accurate measurements. Nevertheless, general measurements can be made. Another is highly mechanized

and automated production such as automated production assembly lines that move rhythmically. Standards for the production lines are basically predetermined by technical equipment. Moreover, although standards may be set for all production or work positions which rely on the joint collaboration of numerous parties, there are still many factors that influence meeting these standards. Thus, the quality of fulfillment is often not totally determined by the individual worker in this position. If a metal axle goes through the two processes of turning and grinding, the yuliang [5940 6852] remaining after turning may be determined by tolerance, but if it exceeds or falls short of the yuliang, the impact on the grinding process may be great. If there is a lot of yuliang left over from turning, it will be difficult to meet standards in grinding and vice versa. Whether or not the lathe and grinder work well also affects the fulfillment of standards. This is also determined by the cooperation of machine repair workers. Problems such as these are numerous. Thus, when setting rational standards, it is of course possible to easily measure individual labor, but there will be disputes on many occasions and it will be very difficult to be absolutely accurate.

Second, lots of labor and work goes on in enterprises and it is not possible to set individual standards. First, it is frequently very difficult to set production standards for auxiliary or service labor. Second, collective operations such as smelting do not involve assembly lines. If there are to be standards, they must be collective standards. This holds true for automated production lines. Finally, there is also technical work and management work for which it is even more difficult to set individual labor standards. Along with the growth of modernized production, the first line of production workers will decrease while second and third line workers will increase. This means that the proportion of mental workers will grow larger. However, it is difficult to use standards to measure individual mental labor.

Third, in large-scale socialized production the labor expended by an individual does not necessarily constitute effective labor. A machine consists of numerous component parts. If everything except one part is completed, this machine cannot be completed. A spare part must go through numerous work processes, and even if quality standards are met in the early processes, it may be rejected in the final process. Thus, the early work processes all carry out "empty work." We who are concerned with piecework wages have all had this experience. When piecework is very much above quota, above quota wages are issued but production tasks may still not be completed. Furthermore, simply measuring individual labor without considering collective results will inevitably lead to individual producers only considering individuals, and overlooking the collective effort and not caring about collective results.

Putting the small collective first and the individual second is, of course, a principle. There are still many problems in putting this into actual practice. It is said that the Soviet Union is currently engaged in wage reform. They have decided to widely promote the "work team (or section) wage system." This is also a method of small collective remuneration. While implementing the system of economic responsibility, our enterprises have had numerous experiences in remuneration to small collectives according to labor. The major part of it has consisted of bonuses, and the method of collective

bonuses has been adopted. Methods such as collective piecework, collective above quota piecework, and other methods including wages have been adopted. Some invented the method of both considering the individual and the collective such as the "work point system" in which work points are calculated according to the amount of individual labor and the value of points is calculated according to collective results. The Liaoning Machine Plant in Guangxi tried a method in which it is determined that every month each person must complete a certain number of man-hours. Upon completion the worker receives the basic wage. For every hour above this number he is rewarded with 1 jiao and for every hour below the expected number of man-hours 1 jiao is deducted. At most only 10 percent of the basic wage may be deducted but there is no ceiling on surpassing the quota. If every worker in the group fulfills his tasks and surpasses his quota of man-hours, they all receive 1 jiao and 2 fen for every hour. If the group fails to complete its tasks each person who surpasses the quota only receives 1 jiao. If the entire workshop completes its tasks each individual receives 1 jiao and 5 fen per hour worked above the quota. If the workshop does not complete its tasks but a group does, the individuals in this group will receive 1 jiao and 2 fen per hour. In this way the individual and the collective are linked, and it is reported that results have been good. Such fine methods as these may be gradually put into practice.

As for distribution according to labor within an enterprise, the advantages of putting the small collective first and the individual second or integrating the collective and the individual are that it is fairly easy to measure labor results and to promote individual concern for collective results. However, whatever method is adopted must reflect the principle of distribution according to labor, and ultimately it is still necessary to carry out distribution to individual staff and workers.

Distribution according to labor to individuals is quite complicated. Distribution according to labor to enterprises and collectives basically uses labor results as distribution criteria. In distribution to individuals, besides primarily using labor results as distribution criteria, it is also necessary to consider numerous other factors. First of all, individual labor may be divided into active labor and potential labor. Active labor is manifested in labor actually expended in the production process while potential labor is the labor capacity of workers which is often not developed because of nonworkers. For example, if we let high level skilled workers do low level work the quality of their work will not be developed, or, if poor production organization causes workers to be idle, then labor, in terms of quantity, may not be fully tapped. In carrying out remuneration to individuals according to labor we cannot only measure active labor actually expended, it is also necessary to be compensated for potential labor. Next, due to disadvantageous labor conditions, the extent of the responsibility undertaken and political encouragement, there must still be compensatory remuneration such as night shift compensation, duty compensation, factory age compensation, local subsidies, etc. In addition there is also remuneration having to do with welfare and social insurance such as disease, injury, and maternity leave wages, wages for those released from work for study, etc. Thus,



various methods must be adopted for distribution within an enterprise to handle these different forms of remuneration so as to motivate the production labor of workers and initiative in other areas.

In implementing the principle of distribution according to labor, it is necessary to oppose egalitarianism and overcome the phenomenon of eating out of the "big pot." As for implementing distribution according to labor in enterprises, it is possible to overcome the problem of eating out of one "big pot" among enterprises and under this premise overcome the problem of eating out of one "big pot" within an enterprise. For many years, due to "leftist" errors the principle of distribution according to labor has been undermined. In addition economic difficulties have led to numerous problems in current workers wages which do not correspond to distribution according to labor. Although there have been readjustments of wages over these past few years, the irrational conditions formed by history cannot be rectified in one fell swoop. After carrying out system reform the bonus money used to readjust worker income will play a significant role in motivating worker enthusiasm. But, just as mentioned above, the factors that must be considered in distribution according to labor to individual workers are complex, and it is certainly impossible to resolve complex contradictions by relying entirely on the use of bonuses for readjustment. Thus it is necessary to consider the reform of the entire wage system.

In brief, the broad sense of the word wage includes various forms of remuneration to individual workers. Therefore the term "wage system" should be changed to "labor remuneration system" as the meaning is even more precise. However, some socialist nations such as Yugoslavia regard "wages" as a capitalist category that should not be used. The term "remuneration" is also inappropriate, since it is difficult to determine who provides remuneration of labor income created by workers themselves. This view is reasonable and we must not regard this as an unimportant matter having to do only with terminology. Since a name is a concept it should accurately reflect the substance of the meaning. Thus "worker income distribution system" is even better than "labor remuneration system."

I believe that two problems must be resolved in the reform of the worker income distribution system.

First, when clarifying and determining enterprise worker income, which form of income should it be divided into? What are the essential characteristics of each form of income? For which form of income must there be national standards?

In terms of the direction of reforming the entire economic management system, the kinds of enterprise worker income may generally be divided into the following several broad categories:

- 1) Basic income (basic wages). Different grade standards may be set according to type of work, work capacity, and degree of proficiency. If piecework wages, duty wages, position wages, etc. are used, provided that

the work duty or position is at the grade requested by staff and as long as they are competent, in principle they should receive the income of this grade standard.

2) Supplementary income (supplementary wages) which includes various kinds of compensation and subsidies.

3) Bonus income (bonus money). At the present time bonus money is treated as compensation for above-quota labor. It is very difficult to accurately control. Above-quota labor should be handled as part of basic income (basic wages). For instance, when practicing piecework or above-quota piecework, the adjustment of the amount exceeded or the amount deficient is simply a fluctuation of basic income. There must still be bonuses which should act as encouragement for individuals to make outstanding contributions (such as inventing new things, winning competitions).

4) Bonus sharing income. This is a benefit individual workers receive from collective results. It may simply be distributed (year-end bonus sharing) or it may be reflected in basic income. (For example, in the work point system collective results are reflected in point value.)

Second, we must clearly determine the division of the limits of the authority of the state and enterprise to distribute income to workers. The state should centrally determine the worker income distribution system, related policies, basic wage grade standards, the kinds of supplementary income and related provisions, general provisions on bonus sharing, etc., which must be implemented by all enterprises.

In the implementation of the two levels of distribution according to labor, after enterprises have paid in taxes and profits to the state according to a specific proportion, the part that remains is considered enterprise income. This proportion of this income in net output value is determined by the state. The enterprise obtains the whole expenditure reserve fund according to provisions. The enterprise should determine independently how to redistribute this expenditure reserve fund within the enterprise. Under the premise that the form of distribution of basic income (the hourly work or piecework form of distribution, position wages, duty wages, etc.) as well as the right to determine the grade and the time and extent of the promotions and demotions of each worker according to the determined grade standard. The enterprise has the right to determine the kind of enterprise supplementary income and the scope of application according to relevant state provisions. The enterprise has the right to give bonuses to workers and implement bonus sharing according to state provisions. Although the enterprise has this authority, it must still comply with central state regulations. Moreover, this authority is to be exercised within the limited amount of enterprise income. Thus, this authority is only a relatively independent kind of self-determination. Once an enterprise has this autonomy it can rely on the democratic management of staff, workers and the masses to rationally distribute enterprise income using various means (not only bonus money) to individual workers. In this way individual income is not only linked to individual labor contributions but also the production results of the entire enterprise.

Now I will briefly discuss several problems regarding distribution within small collectives.

I advocate distribution within an enterprise which in principle means that there should first be distribution to small collectives and then distribution to individuals by small collectives. This principle has already been discussed above. I once said in an article in RENMIN RIBAO: If we practice distribution according to labor among enterprises and among small collectives within an enterprise "after resolving these two kinds of egalitarianism, even though some egalitarianism may exist within small collectives it will not affect the situation as a whole; there may even be some advantage." This provoked some argument. Some comrades believed that since egalitarianism is bad, egalitarianism should not be allowed within small collectives.

At that time I was referring to living wages (bonuses, bonus sharing, etc.) and the distribution of this income. I believe that if basic wages can embody distribution according to labor and if differences between individuals already exist, living wages other than basic wages, particularly collective bonuses distributed to small collectives, must also be distributed correctly according to labor within small collectives. It is often very difficult to implement greater bonuses for more labor. Therefore, I advocate that this income may be distributed relatively equally. This so-called relatively equal distribution means that for the most part equal distribution is carried out, except for striking cases of those who work much more or much less. Such circumstances can be seen in actual experiences. For example, in the past all bonuses were divided into first class bonuses, second class bonuses, and third class bonuses. Rigid rules governed how many people got first class bonuses and how many got second class bonuses. Groups and teams had no way to decide on bonuses. Why? This was because in many circumstances it is not easy to accurately measure labor contributions. Of course, if there is a precise quota then it is possible to adopt the method of above-quota bonuses, but that too does not require bonus evaluation.

In addition, I also suggested that distribution within small collectives "might as well be democratically decided within small collectives." Some comrades believed that this "democratic decision" was "democratic determination." I did not have that in mind. A democratic decision means that the method of distributing this collective income need not be rigidly determined by higher authorities. The method of distribution may be democratically formulated internally. There is one major argument in favor of my view and that is that doing things in this way will help strengthen the collective consciousness of workers.

Foreign countries emphasize the application of "behavioral science" in enterprise management. Under a capitalist system, the study of behavioral science proceeds from the interests of the bourgeoisie to seek methods for controlling the behavior of the individual worker and collective behavior. Can the principles and methods of this science be applied in socialist

enterprises? At present there is some controversy over this, I believe that there is much we can make use of. For instance, behavioral science stresses the formation of collective consciousness. Under a capitalist system, labor and capital are basically antagonistic so it is impossible to truly form a collective with uniform interests. But they make use of certain methods of behavioral science which really play a role in strengthening cooperation. Under our socialist system workers are the masters of the enterprise. It is appropriate and necessary to advocate collectivism and develop collective consciousness. Consequently, not only can we apply certain methods of behavioral science concerning strengthening collective consciousness, but only in socialist enterprises can their role be fully developed. Although many of our advanced teams and groups do not know about behavioral science, they nevertheless have had many useful experiences in strengthening cooperation and developing the spirit of collectivism. For instance, the collective consciousness of some teams and groups is strong. In handling the distribution of bonuses they do not simply follow the stipulations of higher authorities but rather adopt some flexible methods within the teams and groups so as to embody collective mutual aid. For example, higher authorities stipulated that a worker who was absent a certain number of days per month should not receive a bonus and that a worker who requested several days off for marriage certainly should not receive a bonus. The team leader recalled that this comrade was usually very active and since marriage is a joyous occasion, for him not to receive a bonus would be unkind. Therefore, he encouraged comrades in the team to work his shift and with the help of the night shift they completed his quota for him so that he was given a bonus. This comrade was, of course, very moved, and after returning to work he was an even better worker. There was one female worker whose skill level was low. She frequently failed to complete her quota. Not only did she not receive a bonus, but she influenced the completion of the whole group's tasks. They tried to give her the easiest work and help her improve her skill level so that she gradually caught up with the others. There was also a young worker who was overly fond of playing. When he was on duty he would go to see movies, which affected completion of his tasks. The team leader and other comrades worked overtime to help him complete his tasks so that he received a bonus, but they also severely criticized him. This young worker accepted the criticism and felt the team leader's warmth and gradually changed his work attitude. Practices such as these are not all handled strictly according to the principle of distribution according to labor; however, the collective consciousness in small collectives is raised and the initiative of each individual is motivated. Thus, I advocate that certain forms of distribution within small collectives may be determined by the small collective itself. The masses may also have methods which can rationally and successfully deal with such problems.

#### IV. The Principle of Comprehensive Material Benefits

Last of all I will briefly discuss implementing the principle of comprehensive material benefits. In terms of the concept, the significance of the principle of comprehensive material benefits is greater than of distribution according to labor. The original intention of the principle of material

benefits was to make workers concerned about the growth of production from the angle of material benefits. It was meant to link the individual interests of the worker with production results and thereby make him integrate his concern for his own vital interests and production results. If production results are good, this benefits the state, the collective, and the individual worker. Of course, distribution according to labor may also have this effect. However, under a socialist system the improvement of the individual's vital interests is not necessarily the result of this individual's labor; there may be other causes. Once overall national economic conditions have improved it will be possible to provide advantageous conditions for improving individual benefits. After system reform the quality of enterprise production operations will determine enterprise income. It is the prerequisite for improving the individual benefits of workers. Thus not only is it necessary to make workers understand in principle the existence of ties of common interest between individuals, enterprises, and the state, there must also be actual links so that they feel directly the effect of these ties in their actual interests. Consequently the principle of comprehensive material benefits means that in the distribution system it is necessary not only to link up the interests of individual workers with individual labor contributions but also with collective results. It should also be directly linked up with the successes of national economic development. This is the principle of comprehensive material benefits.

If individual interests are only linked to individual labor then the principle of comprehensive material benefits means only being concerned for individual labor results for the sake of individual interests. It would be impossible to guide workers to care about the collective or the state. This is the principle of noncomprehensive material benefits. Some comrades disagree with my view. They say that when implementing piecework wages and other methods of distribution according to labor, worker effort improves productivity. Objectively, the worker both creates benefits for himself and for the state. One cannot say that he is only thinking of his own interests and forgetting those of the state. I believe this view is not very realistic. In real life things are not actually like this. Of course there are many workers who, because of our ideological and political work and inspiration in other areas, may be concerned with collective and state interests of their own accord. Yet, one cannot deny that today the level of awareness among workers is not uniform. Quite a few workers still do not consider collective and state interests in all respects. Without doubt ideological and political work is extremely important and is a major task of top priority today. Educating the broad masses of workers to correctly understand the connection of interests between the state, enterprises, and individuals is a central task of ideological and political work. Nevertheless, in an economic system it is also necessary to have links of interest that can be seen and felt. Only then is it possible to make each worker directly feel that his own lot is connected to the collective and the state.

Formulating our distribution system according to the principle of comprehensive material benefits should make the worker see clearly the channels from which his individual benefits derive. First, as the national economy

develops, what benefits will he receive directly? This requires that we carry out reforms in the system. As discussed earlier in distribution according to labor, it is first necessary to make some "deductions" which means paying in a certain amount of taxes or profits to the state. The state then redistributes this income. One part of it is used for state management expenses, key construction investments, etc., which are also in the workers' interest. However, these are indirect, not direct, benefits. Another part is for direct benefits, primarily for social welfare undertakings or for social insurance. Enterprises are responsible for the labor insurance currently in effect, free medical service, etc. Workers do not realize that these benefits come from the state. Since so much money is expended in this way, why is it not possible to hand it over to the state and once again, in the name of the state, have the state assume responsibility? If retirement and old-age pensions, free medical treatment, unemployment insurance, health care and convalescence, subsidies for children, etc., are all directly managed by the state, they will become state social welfare undertakings or social insurance undertakings. Then national economic plans will clearly define targets and after fulfilling these plans it will then be possible to start welfare undertakings or to raise the standard of retirement funds, etc. In this way workers can see the direct link between individual interests and national economic development and thereby become concerned about fulfilling state economic plans. There is a so-called "welfare state" under capitalism which does much work in this way. Socialist nations should follow suit. At present money is often spent in a similar fashion yet workers have not felt that this is a benefit provided by the state. Furthermore, we have in reality paid out numerous subsidies to workers. If rental charges are low, then in reality there are large subsidies, yet workers are not aware that this is a benefit provided by the state. Therefore, system reform should clearly acknowledge these benefits for workers. Take housing for example. Charges should be based on actual value and then the standard for housing subsidies set. Not only will this make workers aware of their benefits; it may encourage them to economize on housing. As for readjusting wages, if distribution according to labor is implemented to enterprises, the state may have no control over when readjusted wages will be delivered. However, based on the state of economic development, the state may unify and improve wage standards and include it as an item in national economic planning. Thus, even though workers do not get promoted they may still receive increased wages. In this way they will come to understand that the more national economic construction develops, the greater the advantages to the individual. For example, if the 5-year plan requires that the retirement fund be increased a certain amount, even if the worker has not yet reached retirement age he will realize that as national economic conditions improve, both the working people and he himself will benefit. This will further encourage the masses to be concerned about the progress of national economic construction. This is one channel for worker benefits, and it is necessary to adopt measures to clarify this channel.

The second channel is to obtain individual benefits from enterprise collective results. One way is to obtain benefits through enterprise bonus sharing and the other is from enterprise-run welfare undertakings.



The third channel is the influence of the results of small collectives on individual benefits. This includes adopting collective remuneration, collective bonuses, or collective bonus sharing.

Finally, there are benefits obtained through improving the "quality" and "quantity" of individual labor. This is the major source of individual benefits. Workers may upgrade their work capacity through self-study of training. If their attendance rate, work efficiency, and work quality are high, if they practice strict economy and take on much responsibility or if they are creative and inventive, they may receive even more income.

By clearly differentiating the sources of individual worker benefits into the above four channels it is possible to resolve the relationship of actual benefits between the state, enterprises, and individuals. In addition, with frequent ideological and political instruction not only is it possible to strongly motivate the initiative of workers and the masses but also to establish a material basis for cultivating collectivist ideology and for recognizing the superiority of the socialist system.

In order to implement the principle of comprehensive material benefits in this way, we must give overall consideration to the restructuring of the distribution system during the reform of the economic system.

## 6. The Leadership System in Socialist Enterprises [pp 295-308]

[Text] [Editor's note] This article was published in HONG QI [RED FLAG] No 21, 1980. [End editor's note]

### I. Reform of the Economic Management System Requires Reform of the Leadership System Within Enterprises

The reform of the economic management system is a major part of China's current economic reform. System reform refers primarily to how to change the form and methods of state organizational leadership of national economic activities throughout the country according to objective economic laws. Actual practice and theoretical investigation over the past 2 years have shown that the key to system reform lies in correctly handling the relationship between the state and basic level economic units. This requires that we start by establishing and expanding enterprise autonomy. The rationale behind this approach is very simple: a socialist economy is still a commodity economy and a socialist enterprise inevitably possesses the general characteristics of commodity producers. It is the basic unit of national economic activities and it is the basic level unit directly engaged in production and circulation. Under the unified leadership of the socialist state, it must be relatively independent, it must be able to operate and develop independently, and it must have independent economic results. Only in this way can an enterprise become a dynamic organism, fully develop its positive initiative, and become a source of national economic strength.

Socialism is far superior to capitalism in that socialism practices the system of public ownership and has eliminated exploitation. Workers have become the masters of production and work for their own benefit. It is thereby possible to develop great labor initiative and creativity. The basic characteristic of a socialist economy is the implementation of socialist democratic principles in the economic sphere. The growth of independent initiative in enterprises under unified state leadership is the concrete manifestation of a socialist economic democracy. Nevertheless, enterprise initiative in the end still stems from the initiative of enterprise workers. Thus, it is not enough to merely embody principles of socialist economic democracy in the establishment and expansion of enterprise autonomy; they must also be embodied within enterprises. It is necessary to practice true democratic management and to enable workers to really be their own masters so that their infinite intelligence and wisdom can burst forth.

The ideas of Marx and Engels concerning the association of free and equal producers should become our theoretical basis for establishing a socialist economic management system. Marx pointed out: "The national centralization of the means of production will become the national basis of society and it will be composed of the association of free and equal producers. These producers, according to common rational plans, will consciously be engaged in social labor." (Footnote 1) ("The Nationalization of Land," in "Selected Works of Marx and Engels," Vol 2, People's Publishing House, 1972, p 454)

Engels said: "The most important commune law stipulates that it is necessary to organize large industries and workshop handicrafts. This organization should not only regard the association of workers as the basis within each factory but should also combine all these associations into one grand alliance. In short, just as Marx correctly pointed out in 'The Civil War in France,' this kind of organization must, in the final analysis, lead to communism." (Footnote 2) ("Introductory Remarks to the 1981 Edition of 'The Civil War in France,'" in "Selected Works of Marx and Engels," Vol 2, People's Publishing House, 1972, pp 333-334)

According to the above mentioned economic organization under the system of public ownership envisaged by Marx and Engels, there are two main points. First, each enterprise should be an association of free and equal producers, that is, enterprise production workers should democratically manage the enterprise. Second, the overall national economy should be a grand alliance consisting of many equal and independent enterprise associations. These two associations reflect the high degree of democracy inherent in implementing a socialist economy with a public ownership system.

China's current system reform affirms proceeding from expanding enterprise autonomy and recognizes the relative independence of enterprises. It promotes a voluntary alliance between enterprises and, in essence, is heading toward becoming a "grand alliance" as mentioned above. Once enterprises have autonomy, the next step is to resolve who exercises this autonomy and how it is to be exercised. This involves the leadership system in enterprises. Without question, it is necessary to implement socialist democratic principles within enterprises and make enterprise associations of free and equal producers. Only then will it be possible to coordinate those within and outside of enterprises to form an integrated management system that embodies democratic socialist economic principles.

## II. The Enterprise Leadership System Currently in Effect Cannot Conform to the Demands of System Reform

The production enterprise, as the basic socioeconomic unit, directly gives rein to production forces and directly embodies certain production relations. The enterprise leadership system is the core of the enterprise organizational structure. On the one hand it must conform to the objective demands of organized production forces and large-scale socialized production. On the other hand, it must also play a role in preserving certain social production relations.

Historical experience has shown that the leadership system within an enterprise involved in implementing effective management of a modern enterprise may roughly be broken down into three functions, namely, policy-making authority, command authority, and supervisory authority. Policy-making authority refers to the power to make decisions on the direction, policies, and certain major measures regarding enterprise production operations. Command authority is based upon existing policy guidelines and refers to administrative leadership in day-to-day enterprise production activities.

Supervisory authority proceeds from the rights and interests of enterprise owners and involves comprehensive supervision of enterprise policymakers and directors. Once there is both separation of these three functions and checks and balances, it is then possible to protect the rights and interests of enterprise owners and, at the same time, ensure the management efficiency essential to modern enterprises.

In capitalist enterprises, capitalists and their agents are in control of these three functions. In general, the board of directors consisting of capitalist (shareholders) representatives exercises policymaking and supervisory authority. Or, the board of directors exercises policymaking authority while another body, the board of supervisors, exercises supervisory authority. The chairman appointed either by the board of directors or the board of supervisors exercises command authority.

The leadership system in socialist enterprises still may be and must be divided into these three categories: policymaking authority, command authority, and supervisory authority. The difference is that these three functions are subordinate to the workers.

The leadership system currently in effect in China includes the plant manager responsibility system and the staff and workers representative assembly, both under the leadership of the party committee. Whatever problems exist in actual practice, when analyzing the system itself there is still separation of the three functions: the enterprise party committee exercises policymaking authority, the plant manager (director) exercises command authority, and the staff and workers assembly exercises supervisory authority. Many years of actual experience has demonstrated that numerous contradictions exist in the implementation of such a system and even more problems exist in the future reform of the system.

First, the enterprise is an economic organization and the party committee is a political organization. These are two completely different kinds of organizational systems. Socialist economic construction should be led by the political party of the proletariat. This is an unwavering principle. However, party leadership does not necessarily adopt the method of administrative leadership. Many years of experience has shown that having the enterprise party organization function as the highest policymaking body in the enterprise has numerous drawbacks. In some enterprises the party committee must make decisions on all matters, large or small, so that the centralized and unified role of the plant manager (director) in giving orders has been eliminated. This has influenced the management efficiency essential to modern enterprises. The party committee frequently substitutes political activities for scientific management which impedes any improvement in the level of enterprise management. At the same time, the party organization gets bogged down in administrative affairs, thereby creating the phenomenon of the party failing to manage the party which, in essence, eliminates the leadership role of the party in political affairs.

Nationally, party leadership in economic work is primarily displayed in the establishment of lines and major directives and policies. However, the actual implementation of party lines, directives, and policies must be approved by the state administrative system. Future system reform under unified state leadership must recognize the relative independence of enterprises. In managing enterprises the state must primarily adopt economic measures and decrease use of administrative measures to directly give orders to enterprises.

Under such circumstances, how can the party committee within the enterprise directly manage the enterprise? The 3d Plenum of the 11th CPC Central Committee suggested earnestly redressing the lack of separation between the party, the government, and the enterprise and replacing the government with the party and the enterprise with the government. This is a significant policy for correctly overcoming a major flaw in our system. If the party committee in an enterprise still exercises policymaking authority, the party committee essentially becomes the head of the enterprise economic organization. Such an organizational structure can resolve the difficulty in overcoming the lack of separation between the party, the government, and the enterprise.

Second, a major drawback in the current economic management system is that the state directly manages the enterprise, so that the enterprise becomes a branch office of the state administrative organization. There are some corresponding areas in this organizational system currently in effect and in the party organizational system. Consequently, the enterprise, as a basic economic unit, is directly led by a party basic level organization which, in terms of organizational system, is the appropriate one. Future system reform will establish enterprise autonomy. Under the unified leadership of state economic policies, economic legislation and economic plans, the enterprise will have relative independence. It will no longer be a branch office of the state administrative system. Under these conditions the enterprise party committee becomes the relatively independent head of the enterprise. It certainly is not at the corresponding level.

Third, for many years economic responsibility has remained vague due to the fact that party committees and enterprises are two entirely different kinds or organizations. The party committee exercises enterprise policymaking authority but has no clear economic responsibility for enterprise business results. Even if a plant manager (director) accepts responsibility he has no policymaking authority. This abnormal phenomenon of "having authority but no responsibility and having responsibility but no authority" is the inevitable result of mixing two entirely different organizations. Henceforth, in system reform the enterprise is to be regarded as a relatively independent commodity producer and the relationship between the enterprise and the state is to be manifested in a relationship of rights and duties. Furthermore, this relationship must be confirmed by the state using legal means. Every enterprise with state approved registration has the legal status of a "legal entity." It must use its status as a legal entity to accept economic and legal responsibility for enterprise business activities.

If the party committee exercises policymaking authority, the party committee is bound to assume this legal responsibility. Clearly this is inappropriate.

Fourth, democratic management is the fundamental characteristic of socialist enterprises. In implementing democratic management it is necessary to carry out the principle of democratic centralism. In order to implement democratic centralism, in terms of organizational structure, it is necessary to make the functions of democracy and centralism form an internally circular and directly linked organizational system.

The party organization itself is an organizational system based on democratic centralism which has the masses of party members as its scope. The party congress is formed through elections by the whole body of party members. The party congress then selects party committees and party committee secretaries which form the democratic basis of central leadership within the party. However, can this democratic centralism within the party replace enterprise democratic centralism? Obviously not. Enterprise democratic centralism can only be established on the basis of democracy of all staff and workers in the enterprise so that the enterprise becomes an association of free and equal producers as envisaged by Marx and Engels. The current leadership system regards the staff and workers representative assembly as the democratic body of the enterprise and the party committee as the central policymaking body. Democracy and centralism cannot form an interlinking organizational system; thus it is not possible to effectively implement democratic centralism within enterprises.

Fifth, the staff and workers representative assembly is a wonderful creation of ours for implementing enterprise democratic management. Use of this organization over the years has played a definite role in developing democracy and in motivating the initiative of workers to be their own masters. Nevertheless, this role is still quite limited.

According to the current system, the staff and workers assembly is known as the organ of power in the enterprise. What powers does this organ of power possess? In general, it is stipulated that this organ has supervisory authority. Experience has shown that as a mass organization, it is difficult for the staff and workers assembly to objectively exercise effective supervision. The plant manager (director) is an executor and the areas to be supervised by the staff and workers assembly are quite limited. Consequently, it is not surprising that a situation has developed in which "the party committee issues appeals, the plant manager makes reports, representatives vote, and labor unions play a minor role." This kind of democratic management cannot fully motivate the initiative of the broad masses of workers to be their own masters. The creation of such a situation does not depend on who has done well or poorly but rather on the inadequacy inherent in the system itself.

Sixth, any modern enterprise must have strong centralized and unified direction in day-to-day production operations; that is, it is necessary to implement a single-head system. This is an objective requirement of large-scale socialized production. Marx, Engels, Lenin, and other Marxists have written scientific analyses confirming this.



In modern enterprises, policies are collectively made but it is necessary to implement adherence to unified centralized direction. In the past we criticized the "single-head system." This would make sense when referring to policies on major issues. Capitalist enterprises are in transition from sole proprietorship financing to joint stock partnership financial management. They have had to set up boards of directors to implement essential democratic policies. Without question we socialists should adopt democratic methods. One person should not have final say. But, in day-to-day production operations, it is still necessary to implement a single-head system to carry out policies. The plant manager (director) must be responsible for unified centralized direction.

In the implementation of the plant manager responsibility system under the leadership of the party committee, the party committee collectively determines policy and the plant manager gives central orders. Whether or not policymaking authority should be exercised by the party committee, it is still correct that the collective principle be used in policymaking and the principle of a single-head system be adopted in providing direction. In the past we followed the "plant manager division of labor responsibility system under the leadership of the party committee." Responsibility for the daily work of enterprises was divided between plant managers and assistant plant managers; it was not centralized among plant managers. In terms of policy, some enterprises did not develop the collective role of party committees so that all problems, large or small, were decided upon by the party committee secretary. In actual practice a "single-secretary system" was formed. As a result, policymaking was not democratic and command was not centralized. This reversed way of doing things runs counter to the objective demands of large-scale socialized production in modern enterprises.

When enterprises implement democratic centralism, centralism refers to centralism on the basis of democracy. Those who exercise centralized direction have power, authority and responsibilities. They are responsible to the democratic policymaking body. However, in a rational and effective responsibility system there can only be responsibility to one authorized body. If one is responsible to multiheaded leadership, it then becomes difficult to be clear about responsibility. Plant managers (directors) under the current leadership system must be responsible to both the party committee and to the staff and workers representative assembly. This kind of system of responsibility to various bodies indicates disorder in the organizational structure.

From the above it is apparent that many contradictions exist in the structure of the system itself in the implementation of the plant manager responsibility system and the staff and workers assembly system under the leadership of the party committee. Moreover, in terms of the course of reforms in the economic management system, these systems are even less appropriate. Consequently, when actively carrying out reforms of the economic management system one cannot avoid simultaneously looking into solutions to problems in the leadership system within enterprises.

### III. Striving To Improve the Leadership System Within China's Socialist Enterprises

There are both similarities and differences in the natures of socialist enterprises and capitalist enterprises. The differences primarily involve differences in production relations. This is also true for enterprise leadership systems. There are some similarities in terms of rationally organized production forces and demands that correspond to large-scale socialized production; however, due to differences in systems of ownership, the socialist leadership system inevitably has its own special characteristics.

Based on past experiences combined with the course of future system reforms, the leadership system of socialist enterprises can be summed up in three phrases: develop democracy, unify command, and have comprehensive supervision. As for specific work practices, the staff and workers representative assembly and its standing bodies (such as the management committee) should exercise policymaking authority in enterprises so that all staff and workers in enterprises truly become their own masters and the enterprise becomes an association of free and equal producers. Plant managers (directors) should exercise command authority on the basis of democratic policies. A strong administrative command system that implements policies and handles day-to-day production and management work should be established with plant managers (directors) as the heads. Enterprise party committees should implement comprehensive supervisory authority. They should supervise the staff and workers assembly and its standing bodies as well as plant managers (directors) and cadres at all levels so as to ensure the implementation of state economic policies and laws in enterprises. This will ensure the correct integration of national unity and enterprise independence.

This kind of leadership system may be called the plant manager (director) responsibility system under the leadership of the staff and workers assembly. The staff and workers assembly and plant managers (directors) form a democratic centralist organizational system which takes on enterprise powers and responsibilities. The party committee occupies a position outside of this organizational system, so there is no problem regarding separation of the party, the government, and the enterprise. However, the party organization as the vanguard of the proletariat is responsible for instructing party members by setting an example, for guiding all staff and workers to observe state economic policies and laws, for preserving the socialist nature of enterprises, and for carrying out comprehensive supervision of the conditions of implementation within enterprises.

Will such a leadership system weaken party leadership of enterprises? Tradition and practice have frequently shown that policymaking authority is primary in the power of leadership, and supervisory authority is secondary. This view lacks scientific analysis. Of the three enterprise authorities, policymaking is undoubtedly primary in capitalist enterprises with absolute independence. Thus capitalists must go through their board of directors consisting of their own representatives in order to exercise policymaking authority. However, because enterprise business management increasingly

requires specialized knowledge and experience, capitalist enterprises must hire specialists to be on the board of directors. In order to reconcile class contradictions and to implement the so-called "worker participation system" they must hire minority worker representatives to be on the board of directors; thus, the tendency to separate ownership and management has appeared. In order to protect the interests of capitalist owners, capitalists in some enterprises have begun developing the role of supervisory authority. Consequently, the supervisory boards of certain enterprises have even greater power than boards of directors.

Socialist enterprises must also have independence; they should have the right to determine policies independently. However, socialist enterprises under unified state leadership also possess relative independence. Enterprise policies can only be made to a limited extent within the scope of unified state guidelines, policies, and laws and under the guidance of state planning. To ensure unified state leadership, supervision of enterprise operations has become a major problem. The experiences of Yugoslavia and other countries have shown that after implementing reforms in the economic system and expanding enterprise autonomy, this supervision becomes even more essential. Contradictions exist between enterprises and the state, such as contradictions between local interests and overall interests and between immediate interests and long-term interests. Only if the party organization keeps to the standpoint of the proletariat and the interests of all the people, instructs all party members and all workers, and correctly handles these contradictions, can the unity of the state and the independence of enterprises be integrated.

The party organization does not directly participate in the actual policy-making and everyday administrative work in enterprise management; rather, it exercises its comprehensive supervisory authority in enterprises. Thus, it can develop its political leadership role in enterprises in a more objective and more active way. By relying on the prestige of the party and the exemplary behavior of party members, the staff and workers assembly and enterprise leaders will certainly heed and respect the suggestions of the party committee concerning major issues. Even so, if major disputes arise between the staff and workers assembly and the party committee, the enterprise party committee may rectify the situation through a higher level party committee or appropriate leading agency. Therefore, the exercise of supervisory authority by the party committee absolutely cannot weaken party leadership; on the contrary, only by doing this is it possible to truly strengthen political leadership of enterprise work.

If the aforementioned principle can be established and this new enterprise leadership system implemented, it will of course still be necessary to decide on corresponding specific organizational measures. For example, how should the staff and workers assembly be organized and how should its functions and duties be set forth? Should large-scale enterprises under the staff and workers assembly have standing bodies? Is it better to establish general standing bodies or to establish some special committees such as the wage welfare committee and the personnel examination and appointment committee

for democratically handling problems of most concern to staff and workers? How should plant managers (directors) be chosen, by election or by having the staff and workers assembly review and appoint them based on recommendations of higher bodies or party committees? How are their terms of office, functions, and duties to be set forth? The relationship between plant manager and assistant plant manager should be one of leader and subordinate. Should the assistant plant manager be nominated for candidate by the plant manager? According to the above system, it is clearly not very appropriate for labor unions to be considered the standing bodies of the staff and workers assembly. Thus, what constructive roles should labor unions exercise in enterprises? When an enterprise forms an association with other enterprises, various kinds of companies or federations are formed. What leadership system should be established in these companies? What leadership system should be established in the branch companies, auxiliary plants, workshops, and other basic level units within the enterprise? Must all administrative offices, workshops and other leading personnel adopt the electoral system? These personnel all come under the command system of policies implemented by plant managers so should they be appointed or nominated as candidates by plant managers? Questions such as these await further study. After undergoing pilot programs, "Enterprise Laws," "Company Laws," and other laws should be issued by the state and the necessary regulations set forth. These should then be put into effect and we should constantly seek perfection. Finally, it is necessary to form a new socialist enterprise leadership system that is uniquely Chinese and create advantageous experiences for implementing socialist economic democracy.

## 7. Enterprise Consolidation and Strategic Objectives [pp 311-336]

[Text] [Editor's note] This was a report given by the author on 20 December 1982 to the Conference on the Modernization of Technology, the Economy, and Management, held in Beijing. [End of editor's note]

I have been invited to go first in this series of lectures on enterprise consolidation conducted by two institutes. My topic is "Enterprise Consolidation and Strategic Objectives." I believe the sponsoring unit suggested this topic in the hopes that I would discuss the strategic significance of enterprise consolidation. Before tackling this subject more research is required. I have not thoroughly researched this area so I will simply present some of my opinions.

### I. Enterprise Consolidation Is a Strategic Measure in the Decade of Preparation

The 12th CPC Congress proposed the magnificent program for China's socialist construction and set forth strategic goals for economic construction. It proposed that we quadruple industrial and agricultural gross output value by the year 2000. The key strategic point is to develop energy resources, communications, etc., while strategic measures are to be divided between the two decades until the year 2000.

Can such a strategic goal be realized? There are differing opinions both abroad and at home. Some believe that it cannot be realized, but the vast majority believes that it can. Some time ago, in his speech at the Science and Technology Awards Meeting, Comrade Zhao Ziyang discussed the strategic problem of economic revitalization, that is, the matter of scientific and technological advancement. Is it possible to achieve these goals based on analyses of current conditions? He said that conditions were both ripe and not yet ripe. You may believe that conditions are ripe but there are still many areas that are not yet ripe. You may believe that conditions are not ripe but once correct guidelines and policies are adopted they then become ripe. This means that there are two possibilities concerning the realization of these goals. If we work hard to achieve the necessary conditions, they can be realized. If we are unable to do that, there is no doubt that by the year 2000 energy resources will at most only double; and according to the current proportion of production and consumption, production will also only double. Therefore, if we do not create the proper conditions, conditions will never be ripe. If present conditions are not ripe, it is necessary to adopt measures to change this situation.

There are numerous and different measures for each period. Comrade Zhao Ziyang proposed five measures in his report on the Sixth 5-Year Plan. In general, what basic problem should we pay special attention to in order to achieve these magnificent goals? Comrade Zhao Ziyang touched upon this problem at the Science and Technology Awards Meeting by asking: What is the solution? The solution consists of improving economic management and adopting

advanced technology. He spoke only briefly on improving economic management. He said that economic management is a science, and that it is an extremely weak link at present. The desired results may be quickly obtained by improving management, which will serve to tap tremendous potential. He then explained in detail that the major strategic problem in realizing our strategic goal is to develop science and technology. Since the 3d Plenum of the 11th CPC Central Committee, the party has adopted many policies on developing the economy which have brought order out of chaos. These policies over the past few years have been correct and they have certainly played an important role in changing the economic situation. For instance, agricultural development over the past few years has been advancing by leaps and bounds. This is primarily due to the adoption of new policies, the implementation of the output-related responsibility system, etc. However, further development cannot rely solely on policies. Comrades Zhao Ziyang and Hu Yaobang have proclaimed on numerous occasions that in agriculture we must rely first on policies and second on science.

In his report on the Sixth 5-Year Plan, Comrade Zhao Ziyang discussed measures and mentioned five problems: control of fixed asset investments and accelerating technological transformation, carrying out readjustment and comprehensive enterprise consolidation, enhancing the role of science and technology, system reform, and agriculture. In short, there are two basic problems, one involving policies, management, and organization, and one involving science and technology. Thus, regardless of whether we are talking about industry and agriculture or overall national economic development, we basically have two areas in which we lag behind: one is in science and technology and the other is in organization and management. There are all sorts of concrete measures, but from an overall perspective, there are primarily two strategic measures for realizing strategic goals. One is to raise the standard of organization and management and the other is to raise the level of science and technology. What does the term improvement in the "four point policy" refer to? It chiefly refers to improving economic results. How should we improve economic results? This also depends on improving the level of management and the level of science and technology. This holds true for both industry and agriculture.

As we focus on economic construction and develop our economy, according to political economics, we are developing our productive forces. To develop productive forces it is necessary to have corresponding production relations. If production relations are suitable, this will promote the growth of productive forces. If they are not suitable, this will hinder the growth of productive forces. Production relations include an element of organization. Science and technology form the major foundation for productive forces. Thus, in theory, both science and technology and organization are involved. In terms of the broad sense of the meaning, formulating policy is also a management issue. As for the first line of production, the entire production process is always inseparable from science and technology. Without prescribed levels for science and technology, production will inevitably be limited. According to the Marxist viewpoint, science and technology are first manifested in technological equipment, namely, the tools of production.



At the same time, it is also manifested in the scientific principles and technological processes reflected in technological equipment. It is also linked to the knowledge and skills of those who handle technological equipment. All this is called science and technology and includes both software and hardware. The production process is inseparable from science and technology. The most primitive and simple production, regardless of whether one realizes it or not, still involves science and technology. When peasants till the land and cultivate grain crops, the law of biological development is at work. After mastering the objective laws of cultivation techniques, they use our subjective methods to promote and hasten the growth of crops.

Production cannot be separated from science and technology, nor can it be separated from society. Since the beginning of society, production, unlike Lu Binxun [7627 3453 6676], has never totally relied on the individual. Even in a primitive society man carries out mutual cooperation as a small group or as a small collective in the clan society. Therefore, the characteristics of man are that he is an animal capable of manufacturing tools and that he is a social animal. From the beginning, production has had a socialized nature. When a group of people practice cooperation the issue of organization inevitably arises. For those with similar scientific and technological levels, results differ greatly depending on the quality of organization. Technical facilities in some of our plants are quite backwards while others are more advanced. Isn't productivity in those with advanced facilities necessarily higher than in those with obsolete facilities? Not necessarily; it depends on organization. Certainly during the 10 years of turmoil and even at present there are quite a few plants that have a large number of advanced facilities as well as large numbers of technical personnel. However, productivity is low and there are no tasks, which leads to enforced idleness. Potential has not been tapped, and what is more, surface "buoyancy" has not been developed. Shortcomings in our system have led to the whole people being inferior to the collective, the large collective being inferior to the small collective, and the small collective being inferior to the individual. These are all abnormal phenomena. If collectives cooperate successfully, their power will certainly surpass that of the individual; otherwise, how could society advance?

These sorts of abnormal phenomena have appeared due to irrational organization. If organization is poor then even advanced technology is of no use or if it is put to use, its efficiency is not fully developed. For instance, a certain number of computers were manufactured in China and introduced throughout the land. We should take a good look at how many are actually fully utilized and fully exercise their function. Why is this? We cannot blame the computers themselves nor can we blame technology, for the technology is advanced. The principal problem is poor organization. If organization is poor then no matter how advanced the technology, it cannot fully exercise its function. This is true for people, too. We are extremely lacking in qualified personnel. There are few college graduates nationwide. Can this small number of very valuable qualified personnel all be fully utilized? Some are students who have returned from studying abroad. These

returned students may be placed in a position for several decades and never used until their knowledge is obsolete. What kind of craziness is this? Examples are too numerous to mention individually. This shows that science and technology are interlinked with organization and management. They must be integrated, as they are equally vital. In a certain sense, organization and management are even more important than science and technology in that they become effective quickly. The utilization of science and technology does not necessarily require investment. Some new methods do not require any investment and once they are put to use the desired results can be seen immediately. However, most science and technology must be reflected in certain material equipment, and a certain amount of production materials is required to reflect technology. Thus, some investment is necessary. Organization and management do not require investment at all. Of course, the tools of modern management such as computers require some investment. However, most management problems have to do with the quality of organization, which does not require any technical equipment. Therefore, by stressing organization and management we may receive much interest with no principal or much interest with only a little principal.

Today we are lagging behind in the two areas of science and technology and organization and management, but we are most behind in management. Even though at present we lag behind in science and technology, we have made some advances. We do not have much advanced technical equipment, but we do have some. Its potential, however, has not been fully developed or it has basically not been utilized. Consequently, if work in management and organization is improved, it is only natural that first "buoyancy" and then potential will be developed. Due to poor organization it has not exercised its proper function. Therefore, in a certain sense, the strategic measure of organization and management is even more important.

Enterprise consolidation includes the consolidation of industrial enterprises, commercial enterprises, communication and transportation businesses, and the consolidation of the other cells and basic level economic entities of the national economy. What exactly is being consolidated? Management, primarily. Of the past two decades, the first was spent laying a solid foundation, accumulating strength and creating conditions so as to facilitate entry into a new period of economic growth during the second decade. An important part of these preparations, this foundation, and this accumulation of strength, are the "two increases": to increase the level of technology through technological transformation, and to increase the level of microeconomic management through enterprise consolidation and to increase the level of organization and management in the overall national economy through system reform and readjustment. Thus, enterprise consolidation is of major strategic importance during the decade of preparation.

## II. Enterprise Consolidation Is a Major Link in Implementing the "Four Point Policy"

Here we are actually taking the first issue and analyzing it a bit further. Above, I said that enterprise consolidation is a strategic measure during

the decade of preparation. Enterprise consolidation cannot continue until the year 2000; rather it is an important measure for the first decade. Work in organization is to be carried out over the long term, but consolidation is essentially a particular phase. Once it is completed and the level of management in the overall national economy and in enterprises has improved, it will continue to develop. However, this does not come under the scope of consolidation, so it is a strategic measure of the first decade. Reports of certain comrades in the central leadership have dealt with the "four point policy" or the 10-point construction policy that came later. The reports were all in reference to the first decade. If the Sixth 5-Year Plan were to continue to implement the "four point policy," would it be terminated during the Seventh 5-Year Plan? No. Take reform for example: implementation of comprehensive reform can only be begun during the Seventh 5-Year Plan. Therefore, I believe that the first decade is basically the time for the actual implementation and practice of the "four point policy" or the 10-point construction policy. The "four point policy" refers to readjustment, restructuring, consolidation, and improving, and consolidation is the link. Thus, consolidation is a significant strategic measure for the decade of preparation.

What is the relationship between consolidation and the other three? First of all it is necessary to show what problems the "four point policy" is addressing. Readjustment chiefly refers to changing the irrational economic structure created by "leftist" errors of the past such as disproportionate relations between accumulation and consumption and between heavy and light industries, an overextended basic construction front, inflation, financial deficits, and other serious crises. Without readjustment it is impossible to change the overall national economic situation. This is the problem to be solved by readjustment. Restructuring refers to restructuring irrational economic structures of the past. As for the system of ownership, in the past we engaged in ultra-leftism and extremism. We cut off the "tail of capitalism," tried to achieve communism overnight and thereby created a simplified ownership system. Management adopted highly centralized methods. Areas had little autonomy and enterprises had even less, such that the entire economy was stifled. All this must be reformed; it is the only solution. If readjustment and restructuring emphasize the macroeconomy, then consolidation must focus on the microeconomy. Improving refers to improving economic results by raising the level of technology and management. Improvement is the end result.

In order to aim at this result it is necessary to do some work. As we break down and analyze the "four point policy," it basically boils down to a problem of organization and management. Readjustment will resolve the management problem in the overall national economy; restructuring will also include economic management in all departments; and consolidation is directed towards organizational and management problems in enterprises, that is, the cell and basic-level entity. Thus the four items in the "four point policy" actually consist of major overall readjustment and consolidation in management. Enterprise consolidation began after the overthrow of the "gang of four." Early in 1982, the CPC Central Committee and the State Council proposed that

the first comprehensive consolidation of all state-run industrial enterprises take place within 2 to 3 years. There were many comrades who did not really understand this.

The consolidation currently proposed by the Central Committee is naturally the continuation of the consolidation following the overthrow of the "gang of four." However, the current consolidation differs from the former consolidation. It is a part of the strategic measure of the "four point policy" and it is necessary to take into account which opportune moment is used to boldly centralize power to implement consolidation. Consequently, consolidation is an integral part of the "four point policy." In order to comprehend its strategic significance it is necessary to begin by understanding the "four point policy." In the broad sense it is intending to resolve problems in organization and management. Readjustment and restructuring refer to how to organize the overall national economy, such as balancing consumption and accumulation, and the proportionate relations between agriculture, light industry, and heavy industry. Why do problems appear in these structures? Certain erroneous policies were implemented in the past. Policies are part of organization, the principles of organization. In the past we adopted inappropriate organizational measures based upon mistaken principles such as seeking high targets in planning. As a result readjustment must resolve problems in macroeconomic control and restructuring must resolve problems in organization and management from a macroscopic viewpoint. This affects the microeconomy. Take for instance the relationship between the state, the enterprise and workers. The state must control the enterprise but the methods and procedures adopted vary greatly. At the same time, this involves internal management within the enterprise. This is a matter of consolidation. In addition to improvements in management and organization, technological advancement is also necessary. Technological development itself involves the issue of management. For example, where is the capital for technological transformation to come from? Should funds be raised independently or should the state allocate funds? If the state allocates funds, should it allocate funds across the board or on what basis? For instance there was the Shougang transformation project for which it was necessary to apply for approval every year so that it dragged on for many years and was never completed. Once autonomy was established the project was completed in a few months. Thus technological transformation may also encounter problems in the management system. At present economic results are poor, and it is necessary to improve them. In some enterprises output value and yield are high yet the goods do not satisfy the demand. They are stocked in warehouses so that utilization value cannot be realized. Why is this? This too is a management problem.

The four items in the "four point policy" are inseparable from management. What position does the enterprise consolidation that we have been discussing today occupy in the "four point policy?" Much deliberation went into formulating the "four point policy." Since readjustment is the most urgent, it must be resolved first and thus has priority. Restructuring is the basic solution for China's economy, followed by consolidation. What then is the position of consolidation in the "four point policy?" What is its function?

Why did the Central Committee only propose comprehensive consolidation in 1982? They all have some internal relationship. At present we are discussing consolidation, in particular, enterprise consolidation. In order to comprehend this question it is necessary to understand the position and role of enterprises in the overall economy.

Prior to the 3d Plenum of the 11th CPC Central Committee, enterprises were treated entirely as branches of the government. In party organizations, from the central government to the localities, enterprises were basic-level party organizations, and each level controlled another. The enterprise party branch or party committee came under the control of the local party committee, and administration was organized along similar lines. However, enterprises are economic organizations, they engage in economic activities. In the former system enterprises were set up as government branch offices. They had no relative independence and thus resembled the beads of an abacus which are moved one at a time. In this way enterprise work was easily handled. One did whatever higher authorities ordered. All enterprises followed one slogan: "Thoroughly fulfill state plans." The state issued tasks and the enterprise fulfilled them. Once all tasks were completed everything was fine and dandy. The state even took care of things if goods were not marketable or did not satisfy demand. In such a situation the enterprise basically concerned itself with production management, not business. Today things are different. Following the Third Plenum, reforms were initiated to change this highly centralized management system and to expand enterprise autonomy. Enterprises should be relatively independent economic entities. No one can deny that commodity production and exchange still exist in our socialist society. Under socialism we do have a planned economy but we cannot deny that enterprises do engage in commodity production. Thus, as for the function of enterprises, it should be acknowledged that enterprises are relatively independent commodity producers. Without doubt, relative is the key word. It is not absolute independence and it differs essentially from the situation under capitalism. Enterprises may take the initiative and be active in business. As Comrade Chen Yun recently said, you cannot hold a bird in your hand, for it will be crushed. You should let it live, and to do so you must put it in a birdcage. Of course, the size of the birdcage is a problem. If the birdcage is as big as the bird it will die.

The socialist planned economy can be compared to the birdcage. Enterprises within the birdcage should have relatively independent autonomy in business operations. The enterprise is the fundamental cell of the national economy. Where are the production forces we talk about? Are they not within the enterprises? The government must manage enterprises, but the forces of production are not found in the government. You may manage an enterprise but the production forces operate on the first line of enterprises. Therefore, enterprises, as relatively independent commodity producers, must provide vitality and have relative autonomy; only then can they function. This requires restructuring our management system. Following the Third Plenum, trial reforms in the economic system got underway. These reforms created beneficial external conditions in enterprises by stimulating the microeconomy.

If we regard the enterprise as a "hero," then the reforms provide the "hero" with "scope for displaying his abilities." Reforms have created conditions for the even more vital development of productive forces in enterprises. However, are external conditions as good as they should be? Objective conditions are satisfactory but subjective conditions are not; they are inappropriate. In the past few years there have been reforms and readjustments which have brought about changes in the objective conditions of enterprises. Once we decreased the basic construction front, there was a relative decrease in the demand for the means of production and right away the tasks of mechanized industry decreased. According to past procedures, how should this be dealt with? The state had to issue wages to support it. We are currently carrying out readjustments and reforms to give enterprises some autonomy and have linked the quality of business with the interests of enterprise workers. Enterprises may now take the initiative to engage in business. They do not engage in production behind closed doors but rather "seek rice beneath the pot." If there are no tasks, they go out and seek assignments themselves.

Thus, if there had been no reform, it would have been difficult to successfully carry out the readjustments of the past 2 years to the extent that they have been implemented. The state would have had to spend large sums of money to support them. In this way there are both readjustments and reforms. Reforms have resolved difficulties in making readjustments and have expanded enterprise initiative. Once external conditions have been restructured it is still necessary to ensure that internal conditions within enterprises correspond. If business operations are not emphasized within enterprises, and basically no consideration or effort is applied to this area, then even though reforms may provide the necessary conditions, that is, even though the birdcage may be quite big, the bird will still be unable to fly away. Its wings will be powerless and it will be unable to fly. Thus, we cannot have readjustment without reforms. Readjustment and reform require enterprise consolidation, which involves increasing the potential for internal conditions to respond to changes in external conditions. In 1979 industrial reforms began to expand enterprise autonomy. In 1981 the focus switched to implementing economic responsibility systems. On the basis of expanding autonomy a management system developed which combined responsibilities, rights, and interests. It is first necessary to allow enterprises to have autonomy and their own relative economic interests; only then can we talk about responsibilities, rights, and interests. How are responsibilities, rights, and interests to be realized? There must be a scientific management system and methods within enterprises. Only then can the requirements of system reform be met. As in the Capital Iron and Steel Works, there must be contracts and guarantees at each level within enterprises. Thus the central links in the "four point policy" are readjustment and restructuring. At a certain point--early in 1982 [as published]--we must begin advocating comprehensive enterprise consolidation. The significance of enterprise consolidation may be understood as the major link in the "four point policy."



### III. Comprehensive Enterprise Consolidation Is Constructive Consolidation

In a literal sense what we are calling consolidation generally means making an abnormal situation return to normal. Once the "gang of four" was overthrown, it was proposed that we carry out enterprise consolidation. Each department suggested specific consolidation standards and carried out various experiments. Now consolidation has been proposed once again but a word has been added before it, that is, "comprehensive consolidation." This differs from the earlier wording. The consolidation that followed the smashing of the "gang of four" was a result of the 10 years of turmoil. Normal management was destroyed and leading groups were undermined by the "gang of four." The ranks of staff and workers, regardless of ideology, profession or education were all influenced and damaged by the 10 years of turmoil. All enterprise management rules and regulations were also destroyed. Therefore over the past few years consolidation has primarily been restorative. However, present consolidation is constructive. Just now a comrade asked: Will this consolidation rehabilitate those who break rules and regulations? For those who break rules and regulations there must of course be rectification. Of the five tasks to be worked on at present, there is the task of strengthening financial and economic discipline. For violations of financial and economic discipline it is necessary to carry out rectification. Some comrades have asked: Should the current consolidation include readjusting the irrational organizational structures within enterprises? Should small enterprises be consolidated? This touches upon our understanding of the meaning of enterprise consolidation. According to the spirit of the Central Committee, the current consolidation differs from the earlier restoration consolidation in that it is constructive in nature.

What work is involved in constructive consolidation? The Central Committee directive put it very clearly. At present it is above all necessary to focus on five tasks. First, we must consolidate and perfect the economic responsibility system, to improve enterprise business management, and to successfully carry out work in comprehensive planning management, quality control, and economic accounting. Second, it is necessary to consolidate and strengthen labor discipline and strictly implement a system of awards and penalties. Third, it is necessary to strengthen financial and economic discipline and strengthen the financial management system. Fourth, it is necessary to consolidate labor organization, organize production according to quotas and fixed numbers of staff, train all personnel in a planned way, and resolutely overcome the phenomena of being overstaffed and doing careless and sloppy work. Fifth, it is necessary to consolidate and establish leading groups and strengthen ideological and political work directed towards staff and workers. At the present time consolidation is being carried out throughout the land. Everyone is focusing on these five tasks. Liaoning and other provinces have been quite successful and have already begun to carry out experiments. In Beijing Municipality, the majority of experiments will be carried out next spring. These so-called experiments still refer to the five tasks. It is possible that there may be a misunderstanding that enterprise consolidation consists of these five tasks and that if they are carried out consolidation will be completed. This is wrong. These five

tasks are only the minimum tasks to be done in enterprise consolidation. True constructive consolidation consists of the "three establishments" and, by means of the "three establishments," we arrive at the "six demands for improvements." The three establishments are: 1) To gradually begin to establish a democratic and centralized leadership system. The consolidation of leading groups is a problem that currently needs to be resolved. Once leading groups have been readjusted, however, we cannot say that we have now established a leadership system that is both democratic and centralized. Once leading groups have been readjusted the next step is to establish a democratic and centralized leadership system. 2) To gradually establish ranks of staff and workers who are both red and expert. Of the five tasks, it is necessary to strengthen labor discipline and labor organization, and, on this basis, to upgrade the political, educational, professional, and technical levels of all staff and workers. 3) To gradually establish a scientific and civilized management system.

Once the three establishments are completed we must meet the "six demands for improvements." The "six demands for improvements" refer to enterprises being able to correctly handle the economic relationships between the state, enterprises, and individual workers and doing an outstanding job of fulfilling state plans so that enterprises reach the point where the three give consideration to each other, have high quality products, fine economic results, strong labor discipline, highly civilized production, and good political work. Enterprises with the "six fine points" are evaluated on the basis of the "six demands for improvements." Current experiments only include experiments of the five tasks which are not equivalent to tests of overall consolidation. Enterprises which have attained the "six fine points" are the result of carrying out the "three establishments" in a planned way. It is necessary to undergo comprehensive consolidation to choose enterprises with the "six fine points," so this time period must be extended somewhat. Advanced enterprises may be at the forefront. All state-run industrial enterprises should have achieved comprehensive consolidation before 1985. There are more than 380,000 state-run industrial enterprises throughout the country, and emphasis should be given to large-scale enterprises. Medium- and small-sized enterprises should, of their own accord, formulate consolidation plans according to their own conditions and characteristics. Their requirements, however, may differ. For instance, the requirements of the Capital Iron and Steel Works certainly differ from the requirements of small enterprises with 100 or 200 people.

Why must we now focus on comprehensive enterprise consolidation? In the second question we just discussed the relationship of consolidation and the other items of the "four point policy." Consolidation is connected to system reform. Reform creates important external conditions for enterprises but, at present, reform is still in the experimental phase. Experiments are first carried out in a few enterprises. Comprehensive experiments are now beginning in medium-sized cities such as Changzhou and Shashi. Soon comprehensive experiments will be carried out in large cities (Chongqing will be first). It is important to carry out various reform experiments and, at the same time, formulate overall plans. As for carrying out comprehensive

comprehensive reforms, it may be necessary to look to the Seventh 5-Year Plan period, that is, carry out reforms only after 1985. Although current reforms are still in the experimental phase it is necessary to accelerate the pace in a positive and safe manner. To coordinate reforms it is necessary to use the spirit of reform to carry out overall consolidation of cells, namely, enterprises. After 1985, as comprehensive reforms get underway, enterprises can then adapt to them.

At present the Central Committee and provincial municipalities should first stress the consolidation of some large- and medium-sized enterprises. Small enterprises should implement the "three establishments" based upon their own circumstances and characteristics and strive to attain the "six demands for improvements." Since system reform is now being experimented with, changes may occur in some conditions. For example, at present there is a tentative plan: particularly small enterprises, especially service industries, etc., may adopt management by staff and workers and fully implement the policy of assuming sole responsibility for profits and losses. The internal system of such an enterprise may differ entirely in terms of work methods from an enterprise directly managed by the state. Nevertheless, whatever the method, the "three establishments" must be implemented. As for the special characteristics of socialism, the principle of socialist democratic centralism should be applied in all enterprises regardless of whether they are large state-run enterprises or small state-run enterprises or even enterprises with a system of collective ownership. Recently the Ministry of Organization in the Central Committee of the CPC and the National Federation of Trade Unions held a meeting to sum up experiences of the leadership system. The Central Committee summarized the system in three phases: first there is party committee collective leadership; second, democratic management of staff and workers; and, third, plant manager (director) administrative command. All enterprises must reflect these three principles. Based on these three principles what kind of internal management system should there be? This question still awaits our answer. Currently, relatively successful democratic management by staff and workers has adopted the forum of the Staff and Workers Assembly. However, some enterprises in the Staff and Workers Assembly are formalistic and do not really regard the masses as the masters or motivate their initiative; other enterprises have done this quite successfully. Specific methods vary as do results. Regardless of the type of enterprise, as long as they are socialist enterprises, it is possible to establish a leadership system based upon the principle of democratic centralism. This is the first part of the three establishments.

The second part is to establish ranks of staff and workers who are both red and expert. This has both major economic and political significance. Where do we find this working class? The majority are in the enterprises. Major concentrations of the working class are found in large enterprises in particular. Therefore, how enterprises train workers to be both red and expert not only has major significance for improving economic results and the levels of technology and management in enterprises, it also has important political significance for enhancing the quality of the entire working class. All

enterprises should integrate fixed numbers of staff with quotas so as to organize production, release surplus personnel to carry out training in rotation, conduct political, vocational and educational training in rotation, and upgrade standards. Whether enterprises perform this poorly or well, each has its strong points and each can display its abilities. Here we should not distinguish between large and small enterprises; small enterprises have fewer people but they should still maintain this objective of struggle.

The last part is to establish a scientific and civilized management system. The items contained in this part are even more numerous.

In his report on the Sixth 5-Year Plan, Comrade Zhao Ziyang mentioned readjustment and consolidation. There was some change in the Central Committee's wording concerning consolidation in early 1982. He said that the key to comprehensive enterprise consolidation is threefold. First, establish a solid leading group. This was also mentioned as part of the five tasks. Second, establish and strengthen all regulations and rules as well as the responsibility system. In the three establishments this is the problem to be solved by establishing a scientific and civilized management system. Third, formulate a program for technological transformation with conserving energy resources and materials as the key point, and determine a direction for rational product development. This means we must include technological transformation and technological advancement within the sphere of enterprise consolidation. This is something that has not been mentioned before. Technology and organization are two strategic measures. What is the significance of bringing them together at the present time: Technological transformation and technological advancement inevitably involve the issue of organization and management. In enterprise consolidation, while establishing a scientific and civilized management system, it is particularly necessary to pay attention to the problems of technological advancement and management. Scientific research, design, and technological transformation are purely technological matters. Formulating technological transformation plans, carrying out surveys and market forecasts, determining the direction of rational product development and then proceeding from design, technology, and trial manufacture to formal production and rational organization, however, are all management issues.

In his report on the Sixth 5-Year Plan, Comrade Zhao Ziyang also mentioned the four signs of successful enterprise consolidation: The output-related responsibility system, a shift in labor discipline and labor attitudes, products which meet demand, and major economic and technological indicators and economic results that exceed those before consolidation. This primarily refers to the consolidation of enterprises by means of the five tasks and the several signs that experiments are being implemented, not to all the requirements of comprehensive consolidation. What are the final objectives of constructive consolidation? They should be to lay a foundation for establishing modern socialized enterprises that have an advanced material and spiritual civilization and are uniquely Chinese.

Further explanation of the three establishments is necessary. What does the term scientific and civilized management system refer to? Scientific and civilized management implies modernized management. Can modernized management be attained after 2 or 3 years of consolidation? I believe that this is not very likely; modernized management cannot be attained by all enterprises within such a short period of time. Establishing a modernized and new situation before the year 2000 does not mean that it has to be done in the next decade or before 1985. The establishment of a scientific and civilized management system refers to making improvements on the basis of reality. Nevertheless, although modernized management cannot be fully realized within 3 or 5 years, as long as conditions for its realization exist, we should still forge ahead in the direction of modernization. In his report Comrade Zhao Ziyang mentioned numerous times that it is necessary to establish and strengthen management rules and regulations. In terms of the next 2 to 3 years, what should be included? Based on the experience of several advanced enterprises over the past few years we may sum this up as "one system and four comprehensives."

"One system" refers to the basic system--a democratic centralist leadership system. This includes a very important point, that is, democratic management by staff and workers. This is also a key characteristic of socialist enterprises. What we are engaged in is Chinese-style modernization. Capitalist enterprises at times also emphasize democratic management, such as West Germany which has adopted the worker participation system and a board of directors which makes use of worker participation, etc. Under such a system of private ownership, however, workers cannot truly be their own masters; there can only be steps to alleviate the labor-management contradiction. When it involves the basic interests of capitalists, the right to decision still resides with the chairman of the board who represents the interests of capitalists. The modernization of socialist enterprises must, above all, incorporate the special features of socialism. This system does embody socialism and this is most basic. This is the "one system."

Work in enterprise management is made up of the four areas of comprehensive management, namely, the "four comprehensives": comprehensive planning management, comprehensive quality control, comprehensive economic accounting, and a comprehensive labor management system.

"Comprehensive management" was introduced from abroad. This so-called comprehensive management is a form of overall management or system management. In the past enterprise management stressed specialized management such as commodity management, labor management, etc. It lacked a system for organizing the chief objectives of enterprises. Actually, much of our work is done in this manner but the guiding ideology of management is not that clear; no systematic ideology is used to handle the various tasks of management work. In the phase of restorative consolidation, after the "gang of four" was overthrown, comprehensive quality control was introduced (at that time problems in quality were quite serious). Comprehensive quality control holds that product quality does not depend on inspection departments in isolation. The entire process and all staff should be part of quality control.

In this way quality control becomes systematic control. Once this idea was introduced several enterprises in Shanghai developed this idea while studying and popularizing it. A Shanghai diesel engine plant successfully carried out economic accounting; they believed that the spirit of comprehensive quality control could be applied in addition to economic accounting. All departments throughout the plant participated in economic accounting and were equally involved in the entire process. From design and technology to marketing, all sectors focused on economic accounting and all staff participated. Thus emerged the new concept "comprehensive economic accounting." Later, after further development, the State Economic Commission added another "comprehensive," namely, comprehensive personnel training. Comprehensive personnel training should be a part of comprehensive personnel labor management. If training is not linked to management of other personnel affairs, then we cannot say it has been effective; we can at least say it has not been very effective. For example, at present, some enterprises and numerous departments have organized many training classes to train qualified personnel. The training has played a major role these past few years in upgrading the level of management and the educational and technical levels of workers. Nevertheless, certain conditions have arisen. Based upon what I know, prior to the previous wage evaluation they were very active because they heard that during wage evaluation their work would be checked. Later on wage evaluation became irrelevant and their enthusiasm suddenly disappeared. Why? They lack enthusiasm because it is a case of "it is required that I learn" rather than "I want to learn." A change in the position of the same few words results in a totally different situation. If comprehensive personnel labor management were implemented, and training, assignment, utilization, promotion, and transfer were all taken into account, conditions would change fundamentally. For instance, it is stipulated that several grades of work are required for entry into every position. Certain knowledge and skills are specified and it is required that the person entering the position must have attained a specific educational level and a technical training certificate. Only after undergoing training and passing an examination can he enter that position. Suppose that you are a grade three worker and you undergo training, pass an examination, and reach the grade four level. You will then be assigned to a grade four position and will enjoy its benefits. Later on you may have the opportunity to be chosen to undergo further training and attain the grade five level. You will be sent to a grade five level position and will enjoy its benefits. If such a comprehensive personnel labor management system is formed, every worker will have the attitude towards training of "I want to learn" rather than "it is required that I learn." Through study it is possible to improve oneself, which is of benefit to the collective, to work, and to the individual. This is the means for developing men of talent. It is called "comprehensive management" because throughout the plant, regardless of the department or individual concerned, training and rational utilization are needed. This involves the overall process and all personnel. Merely implementing training for all personnel will not resolve the problem (of course, it still plays a large role); there should be a comprehensive personnel management system which includes personnel training.



Comprehensive planning management. Planning in capitalist enterprises is very careful yet there is no planning in overall social production. In socialist countries, not only should planning in enterprises be very strict but there is also planning in the overall national economy which is linked to enterprise planning. Our production must satisfy the needs of society and it is embodied, above all, in the implementation of state plans. There must be improvements in state planning. It should satisfactorily reflect all the most important needs of society that are related to the national policy for the people's livelihood. This is the part that makes up ordered plans. Some enterprise products go towards fulfilling state orders, other products meet the demands of society through market regulation. In this way, enterprises must make their own market surveys and forecasts. The purpose here is also to satisfy the demands of society. An enterprise must combine state plans and its own product plans for "seeking grains under the pot" or promoting sales to form an enterprise production goal, an overall goal. In order to realize this overall goal it is necessary to break it down bit by bit among various departments and basic levels. This constitutes comprehensive planning management in enterprises. Thus, we believe that it is necessary to establish comprehensive planning management with the goal of fulfilling state plans and satisfying the needs of society (this is similar to target management abroad). Production business planning, from production to marketing, is the principal line but it is still necessary to organize, by means of planning, this line and the supplementary production and service work involved. All sections and departments in enterprises should have plans; moreover, they should be implemented at each level and in every position by every individual so that the activities of all people in the enterprise are planned and have objectives. Also, these plans must be consistent with the planning objectives of the entire enterprise. This is the most complete and comprehensive form of enterprise management, that is, comprehensive planning management.

Comprehensive quality control is basically use value control. Comprehensive quality control is currently being promoted in all enterprises and they are all fairly familiar with it. However, one misunderstanding persists: often comprehensive quality control is seen as quality control in the production process. This is not enough. True comprehensive quality control should proceed from meeting demands and the feedback of market information. Not only does this include work quality but also product quality and the suitability of product variety specifications to market demand. This broad concept should be part of the meaning of the term. Some comrades advocate that "comprehensive quality control" be changed to "comprehensive quality and technical control." Actually this will resolve problems in product and technical development; it involves control of the entire plant as a system from the perspective of use value. Comprehensive economic accounting, on the other hand, involves control from the angle of value and live and materialized labor consumption.

Marxist economic theory holds that commodities have a dual nature: they have use value and they have value. Comprehensive quality control (also known as comprehensive quality and technical control) and comprehensive economic accounting, based on the two aspects of commodities, form exactly

two systems which exert control. Here we are referring to physical objects, particularly the objects of labor. The creation of all objects depends on people; thus, the management of people is involved. There must be comprehensive personnel labor management which has motivating worker initiative and exploiting men of ability as its goal. The first two kinds of comprehensive management proceed from the dual nature of commodities and the last one has to do with people. On top of this there is even more complete comprehensive planning management. If we combine these kinds of management, they constitute one system. In addition, we must also have a democratic centralist leadership system. This "one system and four comprehensives" management system emerged from the masses. In it we can see the embryonic form of a Chinese-style socialist enterprise management system. It corresponds to the economic laws of socialism and to the fundamental principles of Marxism.

After analyzing the Central Committee directive in early 1982 we believed that it involved the establishment of an enterprise management system (or organizational system) which corresponded to the special characteristics of China. This is the last item of the three establishments in enterprise reorganization--the establishment of a scientific and civilized management system.

How do we gradually bring about modernized management? First of all there should be a Chinese-style socialist management system as the foundation. We must earnestly sum up experiences learned from abroad in the 30 years since the founding of the nation as well as our own experiences. We must put the "one system and four comprehensives" into concrete terms. All this should be the final work to be done in enterprise consolidation. Conditions permitting, nothing must be excluded; both the "one system" and the "four comprehensives" can assimilate and apply modern foreign enterprise management techniques. For instance, comprehensive planning management can apply foreign target management experiences which include numerous fine methods. The situation regarding comprehensive quality control is even more clear-cut as we have already absorbed and applied the numerous quality control techniques of Japan and the United States. Comprehensive economic accounting is economic accounting of the entire process. It is necessary to have economic concepts for products beginning with design and technology and then implement budgeting, make economic appraisals, and absorb methods of value engineering from abroad. Comprehensive personnel labor management is similar in that much of foreign behavioral science is colored by capitalism. Nevertheless, there are also many fine techniques that we can borrow. There are also numerous methods we can make use of in establishing a leadership system that is both democratic and centralized. For instance, there is the matter of how to set up management offices. Thus, we can learn from the fine experiences of other countries and apply them to the "one system" and the "four comprehensives." There is one important point however; when absorbing foreign experiences it is necessary to have our own experiences as the basis. We must not copy others indiscriminately, for this would make it impossible for new methods to really take root. We should consider our own experiences as the foundation and then go on to assimilate the fine

methods of foreign countries so as to enrich our own experiences. This is certainly not a return to the situation of blind opposition to all things foreign that occurred during the period of the "gang of four." Blind opposition to everything foreign is not right; neither is thinking that "the moon over foreign countries is fuller than the moon over China." That too is going to extremes. Once we have our own system and have summed up our own experiences, then we can selectively adopt all modern foreign management experiences that are beneficial, useful, and good for us. While doing so, we can also make changes based upon our own circumstances. If there are some areas in which we are advanced and doing well, then there is no need to copy foreign experiences. In the preceding period, RENMIN RIBAO published my article, "Striving To Establish a Socialist Science of Management Which Is Uniquely Chinese," in which this issue was discussed. It is said that some comrades took exception to some wording in this article. For example, I wrote: In quality control "we already have numerous 'reliability team' activities that are distinctively socialist, so it is not necessary to simply imitate foreign 'quality control teams.'" Some comrades felt that I put this badly. People are just now implementing quality control teams and I am throwing cold water on them. To date, I have not yet figured out why we should set up such teams (perhaps I am being rather obstinate). This does not mean that we cannot study those methods. Why not absorb the methods of others while having our own reliability teams as the basis? Japan has had many fine experiences, one of which is significant and worth studying. They are very good at assimilating the experiences of foreign countries. Japan assimilates techniques as long as they are successful from all over the world, not only modern ones, but even ancient ones. Some time ago a professor from Japan came here to give lectures. He made a point of talking about absorbing ancient Chinese thought in Japanese management, particularly the military strategies of Sunzi. They have learned about comprehensive quality control from the United States without copying it indiscriminately, and have developed quality control that is distinctively Japanese. Their management by the masses was inspired by our experiences in the "two participations and one reform," and quality control teams came into being in this way. We should also emulate all the fine things of foreign countries. No matter whether they are from Japan, the Soviet Union, or the United States, we should absorb them all as long as they are useful for us. We must not, however, imitate indiscriminately. We have our own fine things that we must develop. It is necessary to put our experiences first and augment this with the fine methods of others, that is, add flowers to the brocade. Take for example the reliability teams instituted by the Loyang Bearing Plant. Their four areas of reliability are: In manufacturing a product it is first necessary for the firm to be reliable and then for inspectors and consumers to be reliable, and finally to be responsible to the state so that the state is reliable. Only the working classes in socialist countries have this kind of spirit and drive. Why do we not give it full play? We can assimilate the experiences of Japan's quality control teams so as to enrich our reliability teams. In this way they will have our own distinctive characteristics and it will be even easier to inspire the broad masses of workers. Under the principle of upholding the socialist way, we must be broad-minded and incorporate all the fine things from other countries and make them our own. Thus, as we look at modernization we first of all encounter the problem of making foreign things Chinese.

The 12th CPC Congress, and particularly Comrade Deng Xiaoping's inaugural remarks, provided a highly generalized look at how to correctly approach the experiences of foreign countries which, I believe, may be equally applied to modernized management.

Due to limitations of time I am unable to offer further elaboration of what I have discussed today. It is very possible that certain comrades will think that I am being complacent and conservative, indulging in parochial arrogance and engaging in narrow-minded nationalism. Actually this is not my intent. Take for example the popularization of foreign experiences in comprehensive quality control. Since the beginning I have participated in popularization. I have been very much in favor of this and certainly have not opposed it. However, I feel that it is necessary to undergo comprehensive enterprise reorganization to accomplish those goals mentioned above, one of which is to establish an enterprise management system that incorporates Chinese-style socialism. Let us all join forces and work together.

Please feel free to point out any errors I have made in this talk.

9864/9365

CSO: 4006/904

- END -